

**MEETING OF THE
NATIONAL PETROLEUM COUNCIL**

99TH MEETING

**Colonial Room
The Mayflower Hotel
Washington, D.C.**

Thursday, April 9, 1992

The above-entitled meeting came on, pursuant to notice, before Ray L. Hunt, Council Chairman, at 9:05 o'clock a.m.

PARTICIPANTS:

Ray L. Hunt, Chairman

James D. Watkins, Secretary of Energy

Kenneth T. Derr, Vice Chairman

Frank H. Richardson, NPC Member

Kenneth L. Lay, NPC Member

Eugene L. Ames, Jr., NPC Member

H. Leighton Steward, NPC Member

Joseph T. Hydok, NPC Member

Richard J. Stegemeier, NPC Member

Robert L. Parker, NPC Member

John R. Hall, NPC Member

Collis P. Chandler, Jr., NPC Member

James G. Randolph, Assistant Secretary--Fossil Energy

Frank A. McPherson, NPC Member

Marshall W. Nichols, Executive Director

PROCEEDINGS

[9:05 a.m.]

MR. HUNT: Ladies and gentlemen, my name is Ray Hunt and I would like to call to order the 99th meeting of the National Petroleum Council. It is obvious from looking around the room that we have an excellent turnout, so I will dispense with the calling of the roll.

The official attendance will be the check-in list just inside the door, and if you did not sign in when you arrived, would you please do so before you leave this morning.

As I've noted to you in various letters over the last six months, Admiral Watkins challenged us last year to reexamine every aspect of how the National Petroleum Council operates, from the conduct of its studies to the structure of its meetings.

The Secretary, as well as the officers of the NPC, have had as a goal to identify ways to make the Council more effective as the Secretary's Advisory Committee on Oil and Gas matters. You have before you today, and we will consider later in our agenda, the report of the NPC's Ad Hoc Committee on Structure and Procedures, which was established late last summer.

You will also see that we have changed the agenda and the format of this meeting in an effort to make it more informative and productive for both the Secretary and you, the members of the National Petroleum Council.

I want to say at the outset that there is nothing magical about the format which we have established for today's meeting, and I sincerely hope that if any of you have comments or constructive criticisms and suggestions as to ways that we can improve these meetings in the future, that you will communicate those to me.

The first format change is evidenced by the group of individuals assembled on the stage this morning. We have our DOE and Council officers, the Chairs of our standing and study committees, and six additional NPC members who I have asked to join us for a question and answer session with the Secretary later in the program.

I would now like to introduce the head table and ask each person to stand and remain standing until the entire table is introduced.

Starting on my left is Frank Richardson, the Chairman of the Committee on Natural Gas. Next to Frank is John Hall, the Chairman of the Finance Committee. Next to John is Marshall Nichols, the Executive Director of the National Petroleum Council.

We next have our three panelists. Ken Lay will be joining us shortly from Enron, Joe Hydok from Consolidated Edison Company, and Leighton Steward from the Louisiana Land and Exploration Company.

Coming around to the far right are three other panelists. Dick Stegemeier of Unocal, Gene Ames from Venus Oil and currently the Chairman of the IPAA, and Bobby Parker of Parker Drilling. Next to Bobby is Frank McPherson, Chairman of the NPC's Agenda Committee, Collis Chandler, Chairman of the NPC's Nominating Committee, Jim Randolph, Assistant Secretary for Fossil Fuel in the DOE, Ken Derr, Chairman of the Committee on Refining and Vice Chairman of the National Petroleum Council, and, finally, the Honorable James D. Watkins, Secretary of State.

[Applause.]

MR. HUNT: At this point, I would like to briefly review today's agenda. We will begin with status reports of the progress made to date by the NPC's two study committees, one dealing with refining and the other with natural gas.

We will then hear from the Secretary of Energy. Following the Secretary's comments, a question and answer session will take place between the Secretary and each of our six panelists. That question and answer session will be followed by an open question and answer session between the Secretary and the full NPC membership.

We will then have three administrative matters to be voted upon by the membership. Following action on those items, we will consider any other business to be brought before the membership, and then adjourn.

I would now like to move into the substantive portion of our agenda, with the first order of business being progress reports from the study committees. I would like to point out at the very beginning that these are status reports. These studies have not yet been completed. Therefore, it would be premature to try to draw final conclusions at this time from the comments you are about to receive.

Much hard work and the involvement of a great many people and a great many companies has been accomplished to date and a lot of hard work with respect to both of these studies remains to be done. You will find these progress reports, however, very interesting and informative. The first report will deal with our Committee on Refining and will be given by the Chairman of that Committee, Ken Derr.

MR. DERR: Thank you, Ray, and good morning to all of you. I'm happy to be here this morning to give you this status report on the efforts to date of the Committee on Refining. First, just a brief reminder of what the purpose of our study is.

We were formed a year ago as a result of a request from the Secretary of Energy to make a detailed study of the U.S. refining industry in the 1990s. Specifically, Admiral Watkins asked that the new study focus on the impact of environmental regulation of refineries and petroleum products.

At the outset, it was noted the study would probably take about two years. The Committee, at its first meeting, directed that the study be conducted in two phases and established a Coordinating Subcommittee to conduct the study.

The Phase I report focused on the ability of our industry to meet the provisions of the Clean Air Act, with particular regard to gasoline and diesel fuel. The Committee's Phase I report was presented and adopted by the NPC at our meeting last June.

The work of Phase II has been proceeding at an intensive pace. The Subcommittee and its four task groups have been meeting almost monthly with numerous subgroups in between. Phase II is a very detailed quantitative analysis addressing the broad range of environmental initiatives and other issues facing the U.S. refining industry in the 1990s.

The impact of environmental legislation and regulation on both refinery products and refineries themselves is being addressed. We are evaluating the capability of this industry, both physically and economically, to produce the quantity and quality of products required in the 1990s and even beyond.

A copy of our progress report is in your packets this morning. Therefore, I will give you only a brief description of these groups and what they are specifically doing. The Coordinating Subcommittee, which is chaired by Jack Matkin of Chevron, is providing overall coordination and consistency among the task groups.

The Subcommittee has developed a detailed list of study issues and assigned task group responsibility for their analysis. Additionally, some cross-cutting issues, such as alternative transportation fuels, are being handled by the Subcommittee on an ad hoc basis.

The Supply, Demand, and Logistics Task Group is chaired by Bill Finger of Exxon and has, as its primary assignment, the coordination of data integration and to assess the source of U.S. product supplies region-by-region, including imports under a variety of potential conditions.

Bonner & Moore has been retained as a contractor to provide a transportation logistics model for such purposes. In addition, Pace has been retained as a modeling

contractor for developing cost-volume curves on foreign product supply for input to the Bonner & Moore model.

Valuable insights on foreign refining issues were provided by expert panel discussions hosted by the task group's Foreign Subgroup. As we know all too well, the future is full of uncertainty, including the demand in the U.S. for petroleum products.

Therefore, three analytical foundation cases have been developed covering the years 1995, 2000, and 2010. First, an increasing demand case from DOE's Energy Information Administration's *Annual Energy Outlook*; second, a no-growth demand case; and, finally, a declining demand case. Product supply will be evaluated under these three foundation cases, with various sensitivity cases examining the impact of the various key assumptions.

The Refinery Facilities Task Group is chaired by Paul Lashbrooke of Conoco. It is charged with assessing the impact of current and future regulations on the refineries themselves, as well as the impact of various permitting regulations. This task group, with the help of an expert panel on environmental issues, has developed a detailed list of potential significant regulations affecting refining in three categories; air regulations, water and waste regulations, and, finally, health and safety regulations.

Bechtel has been retained to develop estimates by refinery size of investment and operating costs that result from these various regulations. Costs for new process facilities and location cost differentials are also being developed.

The Product Quality Task Group is chaired by Stan McGowin of Texaco and is charged with assessing the cost and impact of more stringent product regulation. Turner Mason has been retained to provide modeling support in analyzing the cost and capability of the domestic refining industry to provide required products under a variety of different product specification assumptions.

In addition, Pace has been retained as a modeling contractor to also generate cost-volume curves for use in the supply-demand-logistics data integrating modeling effort.

The Survey Task Group is chaired by Dan Waldorf of Unocal. They have surveyed the industry as a service for the other task groups. The survey questionnaire development was a joint effort by every task group. They constructed a broad survey of the domestic refining industry, covering both production capability and environmental topics.

The survey also covered supply distribution and logistics systems, as well as some foreign product quality and supply issues. SRI was retained to assist in the questionnaire development and to collect, aggregate, and protect the confidentiality of the survey responses.

The survey was actually sent out last November with an end-of-January due date, and I am pleased to report that the survey response has been outstanding. More than 150 refineries representing 90 percent of the U.S. refinery capacity have sent in responses.

I'd like to thank all of you in the room who were part of that successful response. It now provides us with an excellent database from which to really go ahead and conduct our analysis. SRI is now aggregating the survey data and expects to provide most of the data to the task force during this month of April.

So in summary, the primary Phase II study activities to date have centered on such items as defining the issues, survey questionnaire development, survey the data aggregation plans, model development, assumption development, alternative transportation fuels, literature review, and working with contractors to assure suitable survey data and models.

Much work has been accomplished, but the real work is ahead of us. With the steps just listed nearing completion, the critical analytical stage of this study is really just getting underway. This will involve analyzing the survey data, running and analyzing the results of the models I've previously described, and conducting many other analyses.

The study's last stage will be obviously the preparation of our proposed final report to the Council.

How long will the rest of this take? We plan to spend the summer and early fall conducting the analyses, and the remainder of the year developing a proposed final report for presentation to the Council early next year.

In closing, I again want to thank many of you in this room who personally have been involved in helping us conduct this study. As I noted at the last meeting of the NPC, projects of this magnitude are not cheap. With the leaning-down that many of our companies have gone through and the increased demand of regulatory requirements, our industry has fewer people to dedicate to study efforts such as this.

As a result, we are more dependent on contractors for modeling and data-gathering aspects of the study. Accordingly, the Finance Committee, I think later on,

will be asking for your continued support financially which will be required to complete our study.

Ray, that completes the progress report of Phase II of the study and I'd be happy to take any questions if anyone has any at this point in time.

ADMIRAL WATKINS: Just a couple of comments, Ken. I really think this is extremely important to us. As you all know, we're going into the second edition of the National Energy Strategy. By law, we have to report to Congress on 1 April of every other year. Fortunately, that every other year we have worked out to be an odd year, so we don't have the nonsense of an election year, to give us the maximum chance of survival.

So this study and the natural gas study we'll be talking about are very important to that, whatever we have in-hand in time to address this. As you know, refineries were not addressed in our National Energy Strategy. We just didn't have time for the first edition, but it is vital for the next edition.

I would just say, Ken, that what I hope would be done in here -- you answered one of my questions. Do we have the refinery study integrated with the international aspects of refined products, particularly in our own hemisphere. We have a North American Free Trade Agreement coming up.

We don't know exactly where all energy matters will stand inside there. Some are excluded, by Constitutional law as the Government of Mexico interprets their Constitution. So there may be things off-the-table that we still have to address. The international energy ramifications and certainly the refinery study, it sounds to me like the Foreign Subgroup has that in-hand.

The regulatory impact is going to be very important. You've seen the Presidential initiative this year to get a handle on regulatory barriers, particularly by looking back. In other words, those things that are low priority that seem to hamper our industry and the free flow of oil and gas to the consumer in this country we have to address, and we want that to go on a continuing basis.

I think what's going to happen after this 90-day moratorium that the President establishes that we will make this a permanent review process, set up the mechanisms to constantly look at old regulatory barriers and new ones coming up to make sure that the economic impacts and the damage to the industry is looked at very carefully from a policy standpoint, rather than just some arbitrary act that's been passed by Congress, where all of that analysis has not been well thought through and certainly has not been updated.

So that's very important. That aspect is critical. The systems approach, I think, is very important. So I hope in the refinery study, Ken, that we make sure that we don't just so bound ourselves in refineries that we don't look at the tentacles that flow out from refineries in every aspect, including the issues that you're addressing on pipeline capacity and product segregation and cost, and make sure that the systems approach is there so that we can find the valves, if you will, that touch every refinery and system and make sure that we have a good overall picture of the refineries and how they impact on the National Energy Strategy.

So those are my comments. It sounds like you've got a very complex study well surrounded in the way you're approaching it, and I applaud the work you're doing here. Obviously, I'm going to be very anxious to get the Phase II report as early as we can, even in draft form.

We may be discussing some things with you and your committees to make sure that we do not neglect refineries in the next edition of the NES.

MR. DERR: Thank you, Mr. Secretary, for those comments. I think you put your finger on a couple of important points. Number one, this is an extremely complex undertaking. You alluded to the international aspects. We are trying to deal with that, but unfortunately we are not going to be able to model the entire world. But we're attempting to at least reflect some of the international aspects, as they can have some important bearing on what we in the U.S. can do.

I think the request that you made to us a little over a year ago to do this study, you had a lot of foresight at the time. I think we're seeing right now some very direct evidence, in a physical sense, of the regulatory impacts on refineries, as we pick up the newspaper and see once a month probably a refinery shutting down in the United States as a result, as a direct result in some cases, of some of the new laws and regulations that are coming on our books.

And I think a lot of us in this business are concerned that our industry in the late 1990s may be unable to supply the product demands for petroleum in this country. I'm not trying to prejudge what the answers are going to be, but I think we see enough going on in the refining industry to indicate to us that unless we want to become as dependent on products from overseas as we now are on crude, that maybe we need some changes in policies.

So we are certainly trying to get our analytical work to you as soon as possible and we're anxiously awaiting to see what kind of results we'll have.

ADMIRAL WATKINS: Let me make just one more comment, Ken, on that issue to follow up a little bit. Linda Stuntz couldn't be here today because she's at the research triangle down in North Carolina on the fourth of a series of about a dozen national technology initiatives that we've got rolling around the country, where five or six Federal agencies coming together are meeting with people like yourselves.

In this case, they're meeting with those very much connected with environmental technologies. I just encourage you to participate in the NTIs in your region, and let me tell you an example of an organization that recognized the regulatory barriers that they face. And rather than just try to fight a losing battle to get out of that regulation completely, can we solve some of the problems technologically.

General Motors signed a cooperative research development agreement with us at Oak Ridge National Laboratory to see if we could help them solve the Clean Air Act problems they were having with pollution from their spare parts industry, which tags them with the bill on Clean Air Act pollutants.

We believe we can cut their pollutants down significantly. We have certain national laboratories who are in this business for us, in the Department of Energy, for example, but we're also in it for you. We encourage you to participate with us and have your researchers come on in to our national laboratories and see if we can't help solve some of these problems, particularly in the oil and gas industry.

It seems to me we have a lot of opportunities there. So as we talk about research and enhanced gas research and so forth, we're talking about a new relationship, public-private ventures. We have a \$260 million public-private venture with the three major auto makers on finding the answer to the battery. We will find it. I guarantee you within five years we will have it in hand.

We'll have a battery that won't cost you an arm and a leg, that you won't have to replace every five minutes in the car, and you'll be able to plug it in at night because we have the electrical capacity in the off-peak hours for 120 million cars. So we aren't even close to an infrastructure problem.

So we're going to solve that problem. And it wasn't us, it was the industry that came in and, like kids in a candy store, at Argonne National Laboratory in Los Alamos, found some very important research work going on that had nothing to do with the battery for an automobile.

So I'm just bringing this up because maybe we can help solve some of the regulatory problems that you face, that we're not going to get out of by changes to the law, but we may be able to help mitigate those.

MR. DERR: Thank you, Mr. Secretary. Any other comments or questions?

[No response.]

MR. DERR: Thank you very much.

MR. HUNT: Thank you, Ken, for your report and, Admiral, thank you for your comments. If, for whatever reason, you can't hear, raise your hand in the middle of somebody's comments and we'll adjust the microphones.

As this was a progress report just delivered on the refining study, no formal action is required of the Council at this time. The next report will deal with our Committee on Natural Gas, and it will be given by the Chairman of that Committee, Frank Richardson. Frank?

MR. RICHARDSON: Thank you very much, Ray. I'm pleased also to give you an update on the natural gas study. As you may have remembered, we kicked the study off about a year ago at a Council meeting. We've given you one update since then.

A quick reminder on the organization and the dimensions of the study. Secretary Watkins asked us to take a look at the potential for expanding the natural gas into end uses in the United States that make sense, specifically looking at two things. One is another look at the resource base, natural gas resource base, and, two, looking at the constraints to increased natural gas use, look at options for removing these constraints, and then make recommendations to the Council and to the DOE.

A quick reminder on organization. We are headed by a coordinating group of Larry Smith of Shell Oil, who heads the Coordinating Committee. We have four task groups; the first one, Source and Supply, headed by Walt Piontek of Mobil. Robert Brown of Mobil is here today. He's been doing most of the heavy lifting on this group of late.

We have a Demand and Distribution Group, naturally, headed up by Mike Morris of CMS. We have a Transportation and Storage Group, headed up by Bill Smith of Sonat, and a Regulatory and Policy Group, headed up by Rick Richard of New Jersey Resources.

I am pleased to have joining me in leading this group Chairman Ken Lay of ENRON who is here today, Gene Tracy of People's Gas, who is not here today, and Jim Randolph, with the Department of Energy, who is the Government Co-Chair of the study.

The study really has represented a significant amount of time and resources thus far, and, like Ken's study, it is at a critical stage and is going to require a lot more time and resources to get the ball over the goal line. I think it's fair to say that everyone is working very hard. We certainly understand that with the resources that have been spent on the study and will have to be spent over the next six months, it is incumbent on us to at least give you a fair return.

We have about 200 people that worked on the study. We have about 50 companies that are part of the Natural Gas Committee. You do have an executive summary that will have a lot more in it than I intend to say this morning regarding the current status report, and I commend that to your reading when you have some spare time.

Let me emphasize, as Ray said, that we have not made preliminary recommendations on this study. A lot of background work, a tremendous amount of background work and modeling has been done. We will be meeting for the second big meeting of the Natural Gas Committee in mid-June of this year to start hearing the preliminary recommendations, and we will hope to be bringing these to you in terms of the final report this year, late this year.

I might mention giving you a brief snapshot of the study, and I think I would -- because we haven't been to the Committee yet -- I would categorize these as emerging themes, because I don't want to get out in front of the Committee. This wouldn't be appropriate.

But with regard to the first big issue, the resource base, Secretary Watkins asked us to give this a careful look. We have. The group led by Mobil has looked at that. I think that this extensive review is nearing completion. And while we haven't given it to the Committee for a final look, I believe that it certainly will confirm, consistent with other recent studies, that the potential in the lower 48 in the natural gas resource base is very large and it's capable of producing over a long period of time at what we believe will be competitive costs.

The bottom line on this looks to be a resource base somewhere in the 1,100 to 1,300 trillion cubic feet. We start with 160 trillion cubic feet of crude reserves. There's 250 trillion cubic feet of reserves of appreciation in there, 400 trillion cubic feet of yet to be discovered reserves, and 300 to 500 trillion of unconventional reserves.

I think there are three things that perhaps stand out in the work that's been done thus far as far as the deltas or differences, additions vis-a-vis previous studies, and the first is the reserve appreciation work that's been done by Robert Brown and his committee. It looks like they are coming up with about another 100 trillion cubic feet.

The second factor that looks to be a little different is the potential from the unconventional portion of the resource base, tight sands, coal seam, and shale. Some work was done here that was very useful in terms of a confidential survey of proprietary data. It was done in a blind manner and I think that helped significantly coming up with a little more -- with a little added reserve there in the unconventional.

They had the benefit of obviously a little more production as opposed to the first study that was done. Thirdly, the third item was in the area of technology improvement. I think some very good work was done there that we will be reporting to you on a final basis later on this year.

So the bottom line is 1,100 to 1,300 trillion is what it looks like. While the resource numbers, as I said before, remain subject to final review by the study members, I think the amount of effort that has been put into the study thus far has been substantial.

I wouldn't expect the resource base numbers to change significantly. Now, having said that, as we've written in your handouts, there's a big difference between having a large resource base and converting that into production and reliability and deliverability and all those things that are going to be important to the gas industry.

Robert Brown's group is doing a lot of work now on looking at the price sensitivity of these reserves and looking at the anatomy of the supply curve, on what kind of prices these can be brought on at.

If you turn to the second major item of the study, and that's largely with identifying opportunities for expanding the natural gas production in ways that make sense in an economic and environmental manner, the major conclusions of this effort will also be embodied in a final report at the tail-end of this year.

We will only begin, as I say again, to hear the specific recommendations coming out of our task groups and our subcommittees June 18 of this year, but some emerging themes I might give you a little flavor of, to give you something perhaps to hang your hat on for the time being.

It will come as no surprise that the major opportunity for expanding the use appears to be in power generation. These are general conclusions, obviously, that everyone was aware of and were consistent with recent studies.

I think where the current natural gas study will make a contribution is in the detailed regional analysis that's being done. This is the thing that, in fact, is taking some extra time, but we certainly are finding out that the different markets are

sufficiently variable across the regions where we have to look at them region-by-region in a discreet basin to make sense out of the constraints and the options.

Another area of the study, turning to transmission and storage, it's being led by Bill Smith of Sonat. A complete analysis has been made of the current system and its capabilities as a basis for estimating future requirements. The bottom line here is, I think, that the thing that is emerging is that although the growth in natural gas use, if we can attain this growth, will require additional pipeline capacity, as well as expanded storage and some peak shaving, additional peak shaving capabilities, these requirements are not expected to pose significant barriers to the expansion of the system.

The final area for which the Secretary requested consideration was that of regulation and potential constraints that might inhibit the expanded use of natural gas. As you can well imagine, this has proven so far in the working groups to be the most controversial area and has resulted in a great deal of what I would refer to as animated discussion.

The current thrust of the group is really getting down to considering the basic principles of minimum effective regulation. As I've reiterated several times, the recommendations from this group will start coming out in May of this year. We will look at the final recommendations of the group again on June 18.

But we are looking forward to specific recommendations from this task group that address these principles of minimum effective regulation and we expect that they will be giving us recommendations that speak to not only the current regulatory environment, but also the principles of future regulations.

One last thing. The emerging thrust that's coming out of the study, not specific recommendations yet, has been in the area of perceptions across this very broad and fragmented segment that we consider our total cash gas business. The regulatory and policy people engaged a consultant early on for some focus work in the regulatory and policy area, and it looked so interesting that we've expanded it across all of the study groups, and the focus work now has looked at all of the areas that impinge on our natural gas business, as the Secretary asked us to look at the business from the reservoir to the end use and a total system analysis, which we're trying to do.

I think the interesting things that are coming out of the focus groups, and there have been about eleven of them thus far, there will probably be one more, and they've ranged from producers, independent producers, fuel buyers, industrial consumers, equipment manufacturers, regulators, consumers, to give you the broad array.

But it's clear coming out of this that all segments of the industry have to improve the quality of the services they provide. For the most part, natural gas indeed, as we might all expect, is seen as economic and efficient, and certainly environmentally favorable.

However, these benefits are -- the other side of the coin on the focus group work that's coming back to us is that there's a lot of uncertainties, certainly uncertainties regarding regulation, uncertainties regarding the perceptions of the gas industry as, in fact, being unreliable, especially with regard to supply and delivery.

I think the main theme that has come to us is that the gas industry does a poor job of marketing. Some people may disagree with that, but I think the thing that we all have to agree with is we have to do a better job of marketing the products.

So the results of the focus groups are now being integrated into all of the study groups and looking at ways we can improve in the development of options to meet the customers' requirements and recommendations that we'll be making to this group and the Secretary later this year.

So I guess the bottom line is while I'm encouraged by all the findings and all the good things that have been turned up so far in the study, that it's obvious that we're now into the most critical stage.

Over the next few months, the study participants will, on a systems basis, complete their analysis of the constraints, finish developing their options, and, finally, finish the tough dialogue that is going to have to be done among these 200 people that are working on the studies and among the 50 companies that make up our Natural Gas Committee, and boil this down into some recommendations that really make sense and that will result in a product that we are working very hard on to make sure we pay back to the Council and everybody that makes it up the resources that have been put in the study.

That's where we are. There's more information in the written material. The first recommendations will start spooling out in mid-June. We originally intended the study would take 18 months. As I told you about a year ago, it will probably take a few months longer than that.

But we want to do it right and we are aiming to get this thing out and back to you by the end of this year. So I again would like to express my appreciation to everybody that is, first of all, the support of the Council and to everybody that's worked the study.

I would urge you to continue to stay in there with us as we work through the most critical part of the study, now that we think we have our arms around the data and the modeling that will go into the recommendations.

So that's the bottom line. We'll be back with you later this year with the meat of this, which is really the recommendations that would be directed at increasing in ways that make sense the use of natural gas in our total supply picture.

Mr. Chairman, that is it, as we see it right now. I would be happy to take on any comments or questions that the Council or the head table might have. Thank you.

MR. HUNT: Thank you very much, Frank. This is a fascinating study and as it develops, I think a lot of very, very interesting conclusions are going to come up out of it.

As this was a progress report, there is no formal action of the Council required. Our next section of the agenda consists of remarks from the Secretary of Energy. Admiral Watkins has indicated that he has several matters that he wishes to visit with the Council about, and we will hear from him now. Following his comments, we will proceed to our question and answer session.

It is, therefore, my distinct privilege and pleasure at this time to present to you the Secretary of Energy, the Honorable James D. Watkins. Admiral?

[Applause.]

ADMIRAL WATKINS: Thank you very much, Ray, and all members of the National Petroleum Council, for the support you have given the Department of Energy and to me over these past several years.

We will always continue to benefit from your wise Council, and we seek it in oil and gas matters, and I applaud what Ray and you all have done to modernize and reinvigorate the NPC format and procedures here, because I think it's extremely important right now, as we try to develop a comprehensive integrated national strategy, that we come together in a new way.

We have to rally together perhaps more than in the past, rather than go our individual fractionated ways trying to solve pieces of the system, but, in fact, find it very difficult because we impact on other aspects of the system if we look at it in totality.

So we do have a lot of work to do, but we have benefited tremendously from your advice in the past. It may seem sometimes, because we have a large Council, that

you all don't play a role as individuals and just a handful perhaps do around the top of these committees and so forth, but really you all play a very vital role and I think you should look at it that way.

We expect you to be engaged and fully supporting the new approach to strengthening our relationship and the importance that I attach to a vigorous NPC, as we face some very daunting hurdles for this industry that is so vital to the American economy.

It is strange, isn't it, that, for whatever reason, we have forced our oil and gas industry to go overseas and we've just about demolished our automobile industry, the two great industries that have made this country so special.

We have to do something about all that. Fortunately, the National Academy, in the case of the automobile industry, gave us a new look at this so-called corporate average fuel efficiency CAFE and really put it back in perspective what it was.

It's a nuisance when it's too heavy-handed. Of course, we're interested in efficiency in automobiles, but do we want to turn off the entire industry and put it out of business? It's teetering on the brink, just as your industry is here. Whether we're pushing majors overseas or whether we're hurting independent gas producers, whatever it is, we're not doing it right.

Hopefully, the energy bill will help pull us out of it. You all understand the importance of energy supplies that are affordable and how important this is to our economic growth in the nation. I don't have to tell you that.

It's critical to our economic competitiveness with foreign nations and it is absolutely essential for national security. So how we can do anything but provide the necessary strength and underpinnings for this industry, I don't know. We're trying as best we can, but we're being thwarted in many ways by extremists on the other side who have somehow decided that they can get on with their current standard of living and continue this attack on the very thing that made the country great.

Nobody paid much attention to the President when he said we were going to build a National Energy Strategy in 1989. Oh, yeah, sure, we'll have one of those studies and so forth. So we got serious about it and we went out and listened around the country, developed a package which we thought was unique. The landmark had been done before, brought in, transfer of technology, math and science education issues, just give us the manpower base we need, as well as focus heavily on international relationships, which I believe are becoming more important to us than ever before.

And as Ray Hunt appointed me to be Secretary of State today, I'd like to just state in passing that one of my goals at some point will be to try to convince our State Department that we need an important linkage there in the international energy market, because it is so directly coupled with our competitiveness economically.

In other words, a G-7 conference that does not recognize the importance of oil didn't watch the Mideast War. So we have to understand a lot about energy, international energy, our hemispheric energy security and so forth in a new way, that it can be a harmonizing entity in world affairs or it can be very dis-harmonizing.

And we can't just let it stay adrift and not give it its rightful place. So energy, I believe, if we can get a bill, is going to stand out as an important element of our future foreign policy.

Now, let me shift to the bill itself that we're working on. As you all know, in February, by a 94-4 vote, the Senate passed S.2166. It's a good bill, except that it left out the Arctic National Wildlife Refuge. But I have to tell you that we didn't get much help on supporting that, and even from members of this Council and the trade associations.

Now, if you say that ANWR is not important to us because I'm an independent, then you're making a mistake, because the closure of ANWR by the Congress, with the nonsense that's going on up there, when it's environmentally sound to do it, they haven't been up to Prudhoe Bay to watch, but what the producers can do up there in the way of environmental sensitivity.

So if they want to shut it down, they shut it down for this reason, no more drilling anywhere. It's coupled with closing out the OCS and everything else. So let's be cautious before we only look at our narrow aspect of interest in the oil and gas business and let's pull together, and let's get our trade associations talking with each other.

And I mean oil, gas, coal, nuclear, conservation, renewables, all aspects of it, because if we don't do it this way, I'm afraid we're going to go down the tubes individually. We're going to be separated out and we're going to focus on narrow issues that, coupled together, make no system.

So I encourage you to think in those terms. So ANWR is important to everybody in this room, because a defeat of it is anti-drilling, by the same people that love natural gas or somebody has told them to love natural gas because it's clean.

But they don't know it comes from drilling. So this is a big issue and you've got to help solve that problem at home and tell the people around you and convince the

local people that they've got to educate their Congressmen and their Senators that this is important to them for jobs, it's important to them for competitiveness in the world, for the economy.

And so we haven't done a good job and I'm asking you for help there. It is a litmus test and we lost out on it. Now, we will continue to fight for it in every single bill where it's germane and try to get it again on the docket, and we'll not give up.

It is so silly to lock up the billion oils we already have at Prudhoe Bay, close out the pipeline early in the first decade of the next century because we can't move that oil, either from a technical point of view or economically, in the pipeline. So it's not just the new oil, it's the old oil.

At the same time, these are the same people carping on the President for allowing imports to go up. Now, this nonsensical, non-sequitur thinking has got to stop, and you have to help me stop it.

Now, one of the things we have not done well is talk about the impact of the energy bill, if we fail to get one, on jobs in the country and the economy. We say the right words, those inside the system, and you say the right words, but we're not getting it out.

API has estimated that the ANWR, for example, would represent some 750,000 jobs nationwide, and they even put out the brochures that said what does it mean to Michigan, what does it mean to California, and so forth in terms of jobs specifically in those states, and I think it was a pretty good analysis.

Now, that should be significant in a time of economic recession, and, yet, we haven't been able to get that message through. The House Energy and Power Subcommittee, under Congressman Phil Sharp, spent a lot of time working in the back room and getting themselves ready for their energy bill this year.

Last month, the bill reported out of the Full House, an Energy and Commerce Committee under John Dingell, with a 42-1 vote. Now you have 94-4, you have 42-1 from the two cognizant Energy Committees, and now the nonsense starts.

We may never get a chance to get a bill out with what's going on in the Interior Committee and the Merchant Marine Fisheries Committee over in the House. And now eight Committees of the House have been given the right to consider some portion of the Energy and Commerce Committee bill, H.R. 776. Twelve asked for jurisdiction and a sequential referral. Fortunately, they only gave them eight.

They only gave them eight out of that. The mischief that can go on in something like this is incredible. Of course, they're not dealing with isolated issues on regulatory aspects. They're dealing with the energy. They know what they're doing by turning a regulatory vernier. They're closing out of the future of nuclear power and the like.

So we have some very serious mischief going on right now, all partisan, not in the best interest of the country, apparently because they don't want the President to have a victory. But aren't they silly, because they are accused on the Hill right now of gridlock.

Here's an opportunity, bipartisan in the Senate, bipartisan in the cognizant Energy Committee in the House, to get a bipartisan bill, and, yet, it's being fought in other lesser important jurisdictional committees that clearly are in it for only one game - just beat it to death.

When everybody else has said we should go this way, they're saying, no, you're wrong, we're going to make you go that way.

We need your help on these kinds of things. There are too many special interests there being brought to bear that are not in the best interest of the nation. It will actually harm, as a matter of fact, if you can stomach to even read what's coming out of the Interior Committee, it will do severe harm.

And, obviously, we have told the Committee Chairman that so many of those items in there are going to be vetoed. We're not going to put up with it, but that doesn't get us a bill.

Their votes, by Committee, then, did the following in these two committees that are particularly at my point of focus this morning. They sought to block responsible development of vital oil and natural gas resources from most of the OCS until at least 2004, including the buy-back of promising tracts already leased.

They sought to foreclose nuclear power as a future energy option, while imposing unjustified regulatory burdens on existing nuclear power plants. These are the same people that are applauding the Clean Air Act. Now, it just doesn't make any sense, and, yet, that's what they're doing.

They sought to constrain the production of coal and renewable hydropower. So now they don't even like renewable energy. Tired fish, I think it is, in hydropower. So somehow we have to come to grips with these things, coming from the same people who love electricity.

I don't know how you reconcile these things with the American people, but somehow they've got to understand that what's at stake here is coming right out of their own knickers.

These people are doing severe damage to the economy. They're closing out jobs at a time when we need jobs in the country, and they're destroying an industry, in particular oil and gas, but they're also destroying any future for nuclear, and they want to close out hydropower, which is about seven percent or so of the power in some states, more in others and less in some, but very important to us, particularly as we re-power turbines, as we just did at the Hoover Dam and double the output, basically, without any change in the water flow.

By technology improvements in the turbine design, we can do those kinds of things. So it's preposterous to do these things that have been so important to the national economy for so long.

But as important as we know that legislation is, the President is not going to sign a bad bill. He will not sign a bill that shuts off the OCS. He will not sign a bill that jeopardizes the nuclear option. He will not sign a bill that imposes new taxes under any guise, and not one that puts Americans out of work in a misguided effort to address environmental concerns that have little or no scientific justification.

Now, that's where we stand right now. But isn't it a crime, with the very people who chided the President for no energy policy in the country, are now opposing the energy bill, which is only one element of the energy strategy.

The energy strategy that was submitted is a strategy that can carry about 100 action items, 90 of which we have the authority, within our budget process and with the regulatory bodies, such as FERC, NRC, and the like, to do ourselves. We don't need legislation. And we're moving in that direction, as our one-year report indicated.

But the bill is needed in the ten items because those are the gutsy issues that really allow the free flow of energy in a competitive open market in this country. And we've got to go after it and fight hard because the two together are powerful for the economy and jobs.

Separated, we're not going to make the impact. This is why I make the plea to you to get the trade associations to come together, the energy trade associations come together and say we like each other and we will support each other, because we need every bit of energy that we can get in this country. We need all the oil we can get. We need all the gas, but we need to get it to market, get it to flow, get the demand up, and we're going to try to do that.

And we need all other energy sources or we're not going to make the gross national product growth that makes this country great and continues to make it great. It won't be there. So the regressive policies that are represented in the markup in the Interior Committee and the Merchant Marine Fisheries on this issue are so substantive that we should all be worried about it.

We need your help over the next few weeks and months and we know that you will continue to work with us. But keep your sights broad on all aspects and support your friends in the other pieces of the energy sector. They need your help, too, and you will help each other tremendously by talking about the importance of a comprehensive approach, because then the foolishness is going to have to stand this test of analysis in the future when it starts to get unbalanced.

This will be a package as we've never had before, and that's why the NPC has to shift gears on how they approach it, because this is a dynamic strategy, every two years updated. So we have to study in the middle and get the next addition out, keep working the problem. If we don't win on the first round, we'll win on the second round or the third round or the fourth round, and keep moving this thing dynamically.

So it demands a new organizational relationship, and I think you're on the way to do that and I commend you for it.

President Bush also understands your problems in specific. We have a good team over there, despite what you read in the Prince of Darkness column and others here inside the Beltway. This is a good team.

I've been over on three substantive cabinet meetings, where there are no strap-hangers in the background. We're just in there ourselves hammering out issues, such important issues as the national position on global climate change.

And I can tell you there is great harmony in that group and great substance in the meetings held by Clayton Yeutter, Henson Moore, and Sam Skinner. That's a new team. It's a breath of fresh air, from my point of view, and it will be much more supportive, in my opinion, to the President, because the President is now getting information he desperately needs on such things as the condition of the gas industry.

He knows generally about it, but he needs specifics, and that's how we got into the alternative minimum tax with him not too long ago. He's very much supportive, as you know, on repair of that unfortunate situation. In fact, I quote him here as saying "The alternative minimum tax as applied to the energy industry is hurting our economy and helping no one. It is unfair to the independent producers and it's costing us jobs. So let me assure you I will work with" -- and then he was in Oklahoma -- he said "I will

work with Don Nichols to get the Congress to reform this tax revision and restore fair treatment to our energy producers."

Again, because intangible drilling costs are so unique to that industry, you can probably get into this one without opening Pandora's box on all tax issues. So it's a toe in the door, you might say, but a very important one from the independent gas industry point of view, and we fully support that.

So, again, while it may not be in our bill because our bill is not a tax bill, it will support our bill if we can get it out of Congress. Then we're going to have to say in order to achieve those objectives, to get the gas flow up and to keep from destroying our industry, we're going to need that repair of that very unfair practice.

And I believe on that basis, we can win it. So that's why I hope we have a bill, because on that bill, then, we can ride the tax code perhaps in a very specific way that says, well, the Congress passed the energy bill, here's the energy strategy, it fits right in there, you've got to give us the tools to do our job better.

So this bill then becomes more important than just whether or not it has enough for oil in it, and I've heard that from a lot of people. Take it easy. Let's get a bill, and then we can work the problem a lot better. We think it has quite a bit for oil in there.

It may not give you what you want. You may not get a floor on oil for import and so forth. But you'll get a lot of other things. And maybe there's a number of ways to skin a cat rather than the old-fashioned way of going after one issue, which will fail.

Let me talk about natural gas for a minute. I want to follow up some of my earlier comments, because it's one of the most important issues that we're facing in the Department in a new way; organizational reform within the fossil energy shop that Jim Randolph runs.

Today we are releasing a draft for all of you, and we have copies here in the room, of the natural gas strategy. We're releasing it to industry for the next month or so to get your comments into us, so that by June or July, we can put out the final edition.

Now, this will appear, then, again in a second edition of the energy strategy. We're really going after natural gas, a very important commodity in this country. The cost has been pushed down because we have a constipated system and we've got to free up that constipation; put in the necessary Exlax to move that gas into the private sector and move it in a hurry.

FERC just put out a mega-NOPR which seems at this point to be getting reasonably good support, and that's good. So we're beginning to move the system. The system is hard to move. There's a lot of constituencies, a lot of interest, and we have to give a bit in a lot of areas.

So this is a strategy draft that you need to comment on and you'll get copies. I'll talk a little bit about it.

The plan that's laid out in the strategy, which has been some two years in development, is a comprehensive bore-hole to burner-tip catalogue of approaches to natural gas. It represents a multi-year Department-wide approach to natural gas R&D, to improve reservoir knowledge, recoverability, delivery, storage, and end-use technologies.

We especially need your full participation in shaping the research priorities under this strategy and in carrying out field tests and demonstrations. The proposed strategy also calls for continued efforts to reform Federal and state statutes and regulations that restrict market opportunities for natural gas.

We heard that in the presentation this morning from Frank. It outlines new efforts to provide the industry with the technology to comply with environmental requirements without a decrease in economic natural gas production. Here at DOE, elements of this natural gas strategy are already being applied.

It is the basis for our substantially increased request for gas R&D funding in Fiscal 1993. Department-wide, we are now requesting \$108 million. That covers basically three shops.

For fossil energy alone, that is the Jim Randolph shop, we are asking \$40 million for gas research programs, which is up 300 percent over the appropriation of only \$13 million last year.

We all know that the answer for natural gas is to increase market demand, and that's what this draft natural gas strategy is designed to do. You heard that again this morning. We've heard it from the industry now in increasing crescendo over the last six months to a year.

Natural gas is clean, abundant domestic fuel. It's becoming an increasingly efficient alternative to petroleum in the utility sector and in the transportation sector. This is why Linda Stuntz and I drive around in a CNG car. We get about 150 to 180 miles on the two bottles that are in the back, but we also have the dual capability. We've got -- it's a refit, backfit, and we have the original gas tank, as well.

The computer does all the work. You don't have to worry about it. It shifts nicely when it has to and we have only one filling station here in Washington, so there's quite a lineup at the pump. But I hope that the free-market system in the country will start putting in more natural gas stations around the country.

So we think expanding natural gas markets is an important answer for the industry, an equally important answer for America. A growing market will give our own people work in skilled well-paying jobs and it will reduce the trade deficit.

Ken Lay says that, when he put on his economic hat not long ago, that for every 100,000 barrels of imported oil displaced by the domestic natural gas industry, the United States realizes 16,000 new jobs and a \$750 million reduction in the trade deficit, and we believe that those figures are about right.

Now, that's substantial. That's gutsy stuff. Why can't we get the message out and why can't we move these things? And how could you be against drilling? Economically sound practices that you've already used and have demonstrated, why would you not want to do that? Why would you not want to inspire the industry to keep this flow going?

Maybe it's more than the 1,100 trillion cubic feet. Every time we look around, we get another 500 trillion cubic feet, just because we really have to look. When we want to look, we'll go find some more. What's the incentive to look now? You have this much and people aren't moving it. You can buy natural gas at the gas station for 73 cents a gallon equivalent. It's not very inspiring to the industry. So we have to find ways to use it and then let the free market set the appropriate price.

So you need help to help us, as you have in the past, and we need to return the domestic oil and gas industries into a state of competitive good health for the benefit of American workers and American consumers, and we have to get it out in that form.

They will not defend you on the basis of just oil and gas. They will defend you, I believe, on the basis of what this is doing to the economy and the jobs in this country, where you've already lost in the gas industry alone over the last ten years about 350,000 jobs. That is not good for the country.

Again, my appreciation for all your support in the past. I think this can be a landmark year for us if we do our job and we fight hard to get an energy bill out that gives the oil and gas industry some hope.

We believe that that's a sensible approach to the national economy and probably is at the heart of the life blood flow in this country of economics. It comes out of that

energy sector so predominantly, we, as responsible citizens, have to pull it off, and that means you've got to help us in your areas of interest, but also all others as well.

So I commend you, Ray, and the members of the Council for coming together and working with us and proposing new ideas to strengthen your procedures here of the conference format, the interchange between us, and to give me a mechanism for rapid turnaround when I need help, and still stay within the stack of procedures that we have to follow, still keep, within the Council, being involved, but set up a mechanism where we can move fast when we have to, to get response.

It's an absolutely essential change in the era of a national energy strategy with a powerful bill, 600 pages, very complex, filled with arcane issues, such as PUCA reform and transmission access and all these funny words, and the RCRA reauthorization and etcetera, etcetera, that all affect your industry.

Environmental restoration of waste management is a key issue of the energy strategy. We did it because we know it's thwarting your efforts, where there is no de minimis levels that make any sense. They are set on whatever we can find that is beyond that which nature provides.

Now, this gets rather nonsensical when you get into some areas. If we get smarter technologically, and I can read a pollutant down to ten-to-the-minus-fifteenth parts per billion, then you hold me to that level because man produced it, atherogenic or whatever it's called, then that's unfair. What are we doing that for?

If your drilling fluids are basically saltwater and you're penalized for that, isn't that strange? We have a cogeneration power plant in Southern California, run by Southern California Edison, whose exhaust air from the stacks is cleaner than the Los Angeles basin air.

Now, we're purifying the air with a combustion plant, a gas-fired combustion plant. And you tell me why they get penalized for it. This is crazy stuff. We're putting steam back into the oil fields where we need it, half steam and half electricity, and cleaner air out of the stacks than the air in.

So we have to start singing the praises of this industry and talking a lot more about it with constituents out there, with people in the country who still haven't learned that when they're this high on environment, they better be this high on energy at the same time.

Energy right now is off the table, in their minds, but environment is high. Now, that's the dilemma that we're facing and at the heart of the problems affecting the oil and gas industry, in my opinion.

Thank you very much.

[Applause.]

MR. HUNT: Thank you very much, Admiral, for your comments. They were most interesting. And as your Advisory Council for the oil and gas industry, we will attempt to be as responsive as possible to your requests.

Now we come to the part of the agenda that I've been looking forward to with both anticipation and trepidation, as it is the most significant departure from NPC meetings in the past. We have assembled a panel of six members of the National Petroleum Council, each of whom represents a different sector of the U.S. oil and gas industry.

Further, in addition to being distinguished and successful businessmen in their own right, each is now or has recently been in the leadership of one or more of the national associations of his particular industry segment.

For this panel discussion, we have taken the many questions and comments which you, the Council membership, has sent in and sorted them into broad categories. In the interest of time, we have prioritized and, on some basis, consolidated these questions and comments and selected six areas which appear to be the most prevalent on the minds of the membership.

We have given one topic to each of the panelists. We have shared these questions and topics with the Secretary and his staff so that they would be aware of the areas which you would most wish to have discussed today.

The six topics are, first, U.S. oil import dependency. Is it considered to be a problem, and, if so, what can be done about it. The second topic deals with the deterioration of the domestic oil and gas industry.

The third topic deals with ways to increase oil and gas development. The fourth topic deals with the general subject of stimulating demand for natural gas, focusing particularly on the role of government in funding the research, development and commercialization of end-use technologies.

The fifth topic is the product of numerous questions which were sent in dealing with environmental protection. Rather than to address specific legislation or regulatory

matters, our fifth topic will address our country's approach to balancing the often conflicting needs for energy supply and environmental protection.

The sixth and last topic, and not unrelated to all of the above, is how industry and government can work together to educate and communicate with the Congress and the public.

Before we begin this discussion, I'd like to throw down a few ground rules. First, each of the six topics will be accorded ten minutes. Now, we may have to shrink that depending on how things go later with the program.

We realize that each topic could easily take the balance of the day by itself, but that's just not practical. The dialogue on each topic for that time period allocated to it will be restricted to the individual panelist and the Secretary. However, both the Secretary and the panelists have been furnished copies of all of the questions and comments which were submitted by NPC members, and the dialogue between the two will attempt to be responsive to those questions and comments.

At the conclusion of the sixth topic, we will then have an open question and answer session, with the Admiral having agreed to take questions from any NPC member. While a number of questions will undoubtedly have been covered during the course of discussing the six selected topics, we have, nevertheless, allocated 30 minutes for the open Q&A portion of this program.

I would now like to commence with our first topic of discussion, dealing with import dependency. Again, I would like to state that the questions which each panelist will present are based upon the questions and comments sent in by NPC members.

The first panelist will be Ken Lay, and I will be the keeper of the clock and indicate when the time has come to terminate that particular discussion topic and move on to the next. Would each panelist stay at their chair when they pose their question and for any response.

Ken?

MR. LAY: Let me say, Admiral, starting off, I guess for the first time this morning, I find out that the natural gas, what it really needs is some more Exlax. And if that's what it takes, we'll take it.

Import dependency. We did have several questions on import dependency. Of course, we're all aware that our import level is approaching 50 percent dependency. Last year, we spent about \$50 billion on oil imports, representing about half of our total

U.S. trade deficit, interestingly somewhat greater than the total trade deficit with Japan, about 2.5 times the auto import trade deficit with Japan.

Of course, Admiral, as you know, the National Energy Strategy, even with ANWR in it, estimated that by the year 2010, oil imports would reach about 65 percent of our total requirements and would cost over \$200 billion in 1990 dollars, without accounting for inflation.

With that as the backstop, the questions, and this is kind of a multiple question to try to pick up most of the themes and the various questions submitted. Of course, number one, are oil imports any different than auto, steel, or other imports? I guess some of us would like to think that, in fact, even if oil imports got as much attention as auto imports, that might be a start.

Secondly, is there a peril point? Is there a point in both oil imports, as well as the level of U.S. activity, the rig count, etcetera, beyond which this nation should not go without, in fact, jeopardizing both its economic and its national security?

Third, should such external costs, as the military costs of defending the sea lanes and, of course, the occasional Desert Storm War, maybe the cost of the Strategic Petroleum Reserve, but should other external costs, being so dependent on foreign oil, be included in the cost of the imported barrel of oil?

Finally, what, if anything, is or will be done by the Administration to reduce oil imports? Of course, specifically, increase substitution of natural gas, which you referred to this morning.

ADMIRAL WATKINS: Of course, you're asking the question that gave rise to the energy strategy development. The concern at the time was, by the President, he said I don't want to enter another crisis where we don't have our act together here nationally and have an energy policy that is heading towards at least a stabilization of imports rather than something that will clearly accelerate to something like 65 percent by the year 2010, which the energy strategy projects.

Maybe that will change as a function of economics in the world, it certainly will. We've seen already a drop in consumption of oil internationally as a result of recession, but is that good? No. Do we want to constrain growth in order to solve some of those problems? No.

So the issue then is do we want to impose some kind of an oil import fee. Many have proposed that. We study it in the National Energy Strategy. I think we have good

analytic models that show how regressive that can be and who it impacts on in the nation and so forth.

We have looked at it because the President asked us to look at it. We also looked at a gasoline tax, and I don't think any of you are particularly excited about that. I'm not. Also, it's regressive and it impacts on that section of the economy that I think we would all find distasteful.

So these things have been looked at and I don't think that's going to be the answer. I think we're going to have to find, as we have tried to in the energy strategy, to find alternatives to oil in the transportation sector. And does that mean that we don't need any more oil and all you can produce? Absolutely not.

We can't wean ourselves off of oil and nothing in our projection says that we're going to need less than 40 percent oil, even if we put the most aggressive renewables conservation program into effect, if we want to have growth in the national economy.

Oil powers our petrochemical industry. It powers so much of our economy that we're going to need it. So it's not a matter of getting rid of oil. What we're trying to do is cut back on the imported oil that we need from unstable regions of the world. So that's the whole point of the strategy. So there isn't any simple answer.

And I do not support an oil import fee and I think it's wrong for the country. We've done the analysis and it's very clear to me that that's not the right way to go. It is not the right way to go to put a gas tax on there. We've seen exactly who it would hurt and we see it in the Washington Post all the time, just put a gas tax on there.

One Senator said to me, "Why isn't the President bold and stand up and put a dollar a gallon gas tax out there?" I said, "Senator, why don't you stand up and be bold and propose it? You were almost defeated in the last election because of what you're saying now. Now, come on."

And that's not what the American people want and they're not going to put up with it, particularly the underprivileged class and the less economically advantaged classes in the nation where it impacts severely.

Can't we solve the problem? Aren't we a big enough nation to solve the problem? We're the number one in the world in technology. We're very poor in the world in commercializing that technology, but that's another issue in the energy strategy, called the national technology initiative or transfer of technology.

So let's solve the problem by getting into an aggressive alternative fuels package that helps the economy, doesn't deny any oil production in this country at all, we need all we can get, and over the next 40 years, see if we can't stabilize it at somewhere around 40 percent import.

And, hopefully, if we get out and do the kind of work that you're now doing with the former Soviet Union, with other places in the world, the imports are going to come from stable regions, and we're going to wean ourselves off from the unstable regions. That's what you need to do for energy security.

So imports aren't bad. It's imports from whom are bad. That represents a smaller percentage of our total imports than people tend to talk about, and like all of our imports come from one region of the world, and they don't.

So I think what we have to do, then, is get into the energy bill and go after enhanced oil recovery all over the world, which you're doing in this industry. In fact, you're doing it more elsewhere now. The majors have shown a shift by 1990 of their foreign investment off-shore rather than on-shore, and that's a tragedy.

But you're doing it. You're putting the oil into the market. If we can keep a good solid foreign policy, where de-stabilization is kept under control, at least in areas of the world that we would consider to be capable of continuing to flow that oil into the market, then I don't think we're going to be held hostage.

So we have to find alternatives in the transportation sector, and that's what we're going after hard. And we have to go after enhanced oil recovery from existing reserves, and we think we can get somewhere between two and three million barrels by the year 2010, if we're aggressive and we get together on this thing.

And we need to switch to natural gas where we can, and that's what it's all about. So we're trying to move the whole package in favor of stabilizing imports.

So I can't answer it simply. Is there a peril point? I've never been able to find it. I'd say the peril point is this. You tell me the unstable producing regions of the world and exactly what's going to happen to them, and I can tell you, then, that that represents the potential of so much percent of our imports.

Therefore, we have to make that up in enhanced oil recovery, weaning ourselves off oil in our own transportation sector, and try to get that percentage, whether it's eight percent, ten percent, down to zero. Not imports, but from those unstable regions.

You tell me what Iran is going to do in the next 20 years. That's a humdinger to be thinking about. Now that we've more or less taken care of one element, what is going to happen in the other one? Are they going to be a responsible government or not?

Are they going to try to establish hegemony, just as Saddam Hussein did in that region of the world or aren't they? That's critical. But certainly there's a powder cake there. Will there be a problem in the Commonwealth of Independent States, the former Soviet Union? Will that be stable?

It's our job to see that it is and do everything we can, and that's what the President is trying to do. His latest announcement I think was very important to you because it does tend to move in a direction that stabilizes the relationships within the former Soviet Union, and we're going to help them out and you're helping them out.

You're over there now trying to find who can sign the contract, but, nevertheless, you're working the problem and we're working the problem, and it's a very big part of the aide initiative that we have going with the Soviets.

So it's a long answer. I think once you start getting into externalities, Nelly, bar the door. You start trying to say what is the defense cost of supporting us in a region and you're going to open all the externality doors. Externalities are already trying to be used in some parts, some regions of the world right now on CO₂. What's the cost of CO₂?

And they're using bogus data and bogus figures in order to put you out of business. So when you get into externalities, you better be careful because you're not going to stop at the fence. How about CO₂ generation? There are a lot of people who think that we're the only nation in the world holding the line on a sensible global climate change protocol.

We've got to hang on to that one for dear life. If you think everything in regulatory -- all your regulatory barriers are bad, get a load of 20 percent carbon reduction by the year 2000. So let's be cautious about going after one externality, and they'll say, fine, we'll cost that out and now we'll cost out CO₂.

So those are kind of my answers.

MR. HUNT: Thank you, Admiral. When we set up this meeting and came up with this structure, we wanted to have as unscripted a meeting as possible. That's the good news.

The bad news is when you do that, you lose total control of the program. The Admiral has to be walking out that door at 11:30. He has been extremely gracious to spend the entire morning with us, and especially in the open forum that we have at this point.

Many times in the past, former Secretaries would come in, give a speech and leave. Now, what we have in front of us is the portion of the program which deals with questions from members of the panel, which originally was designed to be ten minutes per panelist, and 30 minutes from the entire membership.

I want to preserve the 30 minutes for the membership. So, panelists, let's cut back the ten minutes. Let's make it one question. That means approximately seven minutes per panelist, and we'll go to the floor here, realizing that each of these panel questions could go all day long.

But I think that the commentary and the discussion is certainly going to achieve what the Admiral desired in having us take a fresh look at how we do the NPC's business. He wants to hear informed commentary and he wants to hear what you all are thinking. I think it will accomplish what you all want, which is dialogue, not prepared canned speeches.

The second topic deals with the deterioration of the domestic industry, Gene Ames. Gene?

MR. AMES: Thank you, Ray. Mr. Secretary, first of all, I want to thank you for becoming an aggressive spokesman for our industry. I want to recognize the fact that in the last few months, you have, in many forums, testified before Congress about the collapse of our industry and the need to save this industry, and we thank you for taking this position.

We also are aware that President Bush has publicly expressed his concern. Unfortunately, sometimes we feel that your voices have been heard like voices in the wilderness, and we want to try to help you get your voice heard.

But, unfortunately, we feel like historians may look back upon this time, the disintegration of the United States petroleum producing industry and the disastrous impact on the economic and military security of our country, as one of the greatest failures ever of our government.

By the end of this year, the collapse of this industry will have cost the nation over 400,000 jobs. Tax penalties and unnecessary regulations have so reduced the

profitability of upstream investment that the major companies, as we all know, are moving overseas and the independents are going out of business.

Our drilling industry is insolvent, and the bottom line is our industry, our upstream oil and gas industry is dead right now. The doors are now closed in America to entrepreneurial energy developers. Yet, we're going to spend hundreds of billions of dollars and it's estimated that we're going to export over 500,000 jobs overseas in pursuit of foreign exploration.

And we all know that we are blessed. We've heard reports from the Natural Gas Committee today on supply resource estimates that they're coming up with. We're blessed with a vast endowment of natural gas reserves, and also a vast endowment of oil reserves, and I mean conventional reserves left in this lower 48, not just enhanced recovery prospects.

Several questions from the members of the Council express the same theme. Words are great, but how can we get our government to act, to finalize real and dramatic legislation to remove the economic and regulatory penalties to investment in the U.S. domestic upstream petroleum industry?

What can the National Petroleum Council do specifically to help you get the message across to government that they must save the domestic petroleum upstream industry?

ADMIRAL WATKINS: Well, I agree with your assessment and everything you've said there in surrounding the issue. So I don't think there's any disagreement, certainly, between the Department of Energy and my feeling in general and the White House on that issue.

We've been a year-plus now in wrangling over an energy bill. You see what damage is being done by game-playing in the several referral committees in the Congress. So when you say the government, you have to include the elected representatives on Capitol Hill in that process, who, frankly, by their indication of position taken on the Arctic National Wildlife Refuge, gives you a feeling of how much they love your industry.

So you're asking me to change a cultural thing in the country and that somehow by some action that we're going to do it better than we're trying to do it today, by moving into a comprehensive legislative approach to this thing.

I don't think it can be done by any other means. I think that what's going to have to happen here is we all have to regain some credibility with the people in the country

to recognize, as I said earlier, that things like environment must be balanced with energy, economics, and science.

It's the last three elements of the four-legged stool that aren't there. So we're sitting on a one-legged stool. We're trying right now to take a relook under the Vice President, in the direction of the President. He's very serious about this regulatory review. We're very serious about it.

And we're going to be looking over the shoulder of some other agencies that we think impact severely on the energy flow, and we're going to try to find a new baseline common sense that doesn't seem to have a goal of elimination of the industry. Let me say that's not easy. It's not easy in the country right now.

Generally, the press is against enhanced oil recovery, ANWR, OCS, against all that sort of thing, no matter how well you manage it. So I don't have a simple answer, but it's not going to be done. In my opinion, it's illogical to think that it will be done by some sort of violation of the basic principle that we're trying to impose in the U.S. Trade Representative work, in trying to free up some of the subsidies in Europe on agriculture and so forth, and free up economies of the world to be much more free-market oriented.

I don't have any simple answer for the dilemma, except what we're trying to do in moving a variety of things in the bill. I think then if we can have a strategy that is a bipartisan strategy that reaches out 40 years and then backs down to near-term, we can begin to work and begin to facilitate the execution of that strategy.

But in the absence of it, we're looking in a vertical direction at oil and gas and independents and majors and the nuclear industry and the rest of the utilities, industries that maybe don't have nuclear. Then you have the hydro people. Then you have the conservation and renewable people.

If that's not packaged up together, I don't see how we can get there. We have no baseline for attacking the problem that you have well identified here until we have some kind of an agreed-to strategy or policy that has been passed by the Congress of the United States, as well as set by the President.

We can only do so much, and I would have to say that without the bill, our actions are a drop in the ocean. We have to have legislative support and we're going to have to fight for it. And then I think we can enhance the package as time goes on to avoid the destruction of this industry that is so vital to the economy.

In the meantime, we just have to keep fighting and we are fighting and we're serious about it. We're doing everything we can. We have teams of people working the

Hill and we have teams of people trying to get the word out, but, frankly, when we say these things in public sessions, nobody prints it. They just will not print it.

We can talk to each other. We can all agree and nod, and that's the end of it, unless it's negative against the industry. So it's a very difficult educational process that we're engaged in here, very difficult in the sense that it's hard to get the message through, hard to get the lessons to the American public.

We'll have to keep fighting. I could get down to the specifics. They've given me a bunch of answers here, but you know all this stuff. I can read it all off to you, all the wonderful things we're doing, but the industry is in trouble. And if I told you all these wonderful things, you'd start throwing tomatoes at me.

[Laughter.]

ADMIRAL WATKINS: I know it's in trouble and it's in trouble for some very specific things, and we've got to try to fix it. But we're not going to fix it till we have a baseline, a reference document that has been agreed to not just by the President, but by a Democratic controlled Congress. And in an election year? Wow. This is no mean task. But you can help out there. You really can. And I don't mean just -- I don't mean lobbying.

I'm not talking about that. I'm talking about that, too, but that goes on all the time. I'm talking about arouse the American people, the workers who are out of work now, the people who are worried about our economy. You're it. You're a large part of that not only here, but worldwide.

And somehow we have to get that message out and we have to attack those that are on the basis of they're interested in the environment, they're interested in the other thing. They're not interested in that. They're interested in destroying certain things, because their ideological beliefs don't match that of the President of the United States, and that's wrong for the country. That's the gridlock people have been talking about.

That's the real problem right now in governing in this society. We have to solve that problem. And, frankly, if we can break through this barrier on this bill, I think we've made the first blow for freedom, and then give us a chance to work something and enhance that package with the kinds of things that make some sense for this particular industry beyond that which we have in there now.

MR. HUNT: Thank you, Admiral. Thank you for a very good question, Gene. Next topic deals with oil and gas development, Leighton Steward. Leighton?

MR. STEWARD: Good morning, Admiral. You've already answered many of the questions that our members have asked, but let me give you a brief flavor of some of our members' concern and just state a few of the questions that they asked.

A number of the members are interested in the Administration's position on actively encouraging domestic development, and the others wonder what future specific steps, if any, the DOE and other departments will take to help facilitate the U.S. industry's opportunities in foreign countries and to help diversify from this dependence on a concentrated geographical area.

You have already addressed the veto issue in case total moratoria is proposed. Other questions ranged from setting a floor price to provide stability, to RCRA classification of drilling fluids and what could be done about that more actively, to does the Administration believe independence has an important role in the development of new domestic reserves, and, if so, why is its leader being so quiet about it, and, lastly, I agree with you that extremism is running rampant in our country and our industry is certainly a favorite target.

Who can best temper the extremism and hate that is being directed towards normal economic activity that we think may take decades to overcome? Businessmen and reputable scientists are really at a disadvantage versus this extremist fringe because we can't lie, we can't grossly mislead, or we'll get fired or run off, and we should.

Our credibility would be lost. But the fundraisers not only can, they do, and sometimes they do it knowingly, they either lie or grossly mislead. But how is the average American citizen to know this? They certainly don't believe us. Our credibility is shot.

I think that's part of the gross problem here. We try to help by getting out a message, but our voices fall on deaf ears.

Should we support legislation, for instance, that causes these 501(c)(3) tax exempt organizations to lose their tax exempt status if they knowingly lie or grossly mislead to raise funds?

The government gave them this tax exempt status. Why didn't it give them some rules to go by? A lot of us would love a level playing field like that to just talk about the facts.

Let me get down to one question here, because you have answered the first question I was going to ask. On us helping more, because a lot of us feel like we've really tried to help as best we can, may I respectfully turn that question around and say

what else could the Administration be doing to help with many of these significant issues, such as extremism, since we have no voice to defend ourselves?

ADMIRAL WATKINS: I think the President would find that your comment, he feels, is equally applicable to him. He has made a lot of good statements, and when you read the statement, it will pick up on a Q&A after his speech that has nothing to do with the issues that he's raised, for example, on alternative minimum tax.

So it's very difficult when you have a press that's basically hostile to what they think is a glut -- that we're gluttons in this country for oil and gas. They feel that way very strongly. They write that way all the time.

So how do you get a positive message out that you need both production and enhancement and consumer restraint at the same time in order to accomplish your objective? I don't know how to do it any more than we've tried. We've certainly gone on the stump. All of us have to try to do it, and we get very little publicity, except in the trade journals that are only read essentially by us.

Let me just focus on one aspect, though. The RCRA reauthorization, as we know, is one of the most critical bills, and, yet, would you go out on the street and ask 100 people and say tell me all you know about RCRA. What do you think you'd find? Zero response.

So RCRA, again, is a way of eliminating an industry, if you want to. So we have to watch it very closely. The issues you raised, contained in a potential reauthorization of that bill, which is doubtful that they'll get it this year. It's doubtful whether it will be really worked that hard.

If we think the energy bill is contentious, wait till we get into that one with the environmentalists and talk about how much is enough on these things. Nobody knows how much is enough. We're trying to find that with our Secretary of Energy Advisory Board and a whole host of areas to get into this whole baseline of what are we trying to clean up to what and for what reason.

It has not ever been established. They find their own de minimis levels if it's man-produced. So this is critical to the industry. We're in the middle of this thing and we worked what's called the Federal Facilities Compliance Agreement, Federal Facilities Compliance Act last year successfully as a hopeful precursor to a successful RCRA reauthorization.

At least we've got members of the Senate Energy Committee fired up on this issue, that this issue is germane to energy. In the past, it hasn't been given the time of

day in energy. So we've got to get in it and make it a better act, and that's our intent and we're very much involved in it.

Interagency group, it's not just the Department of Energy. It's all interagency groups and we have a White House team working this thing, and we are going to be a death on mischief inside that, but it's going to be tough. With a Democratic controlled Congress, I'm telling you that it's going to be one of the biggest fights, and people won't understand it. The American people cannot debate a subject like RCRA.

It is very, very complex. Yet, inside there are the elements of defeat of your industry if we don't stay and work together on that. So that's going to be an important thing for NPC to stay with us on, and this may well be an area where we'll want to take advantage of a more short-term ad hoc group to come back to the full Council and start working this problem as it floats up on the prospectus.

Right now it's on the back burner, but we're ready for it. We have not been sitting idle on this. We have a whole team in the Department of Energy who has been doing nothing but getting ready for this, and the other agencies, as well.

So we'll run the attack at the right time. I've already talked about regulatory reform and what we're trying to do, then, to make that a permanent business. We put this out for your comment. A lot of the things that we talk about in there you raised for natural gas and we hope that you will give us good solid comments back.

We hope that you will participate with us in the transfer of technology initiative that I talked about at the very outset when we were talking about refineries. It's equally applicable here. We're putting big bucks into R&D and we want partnerships with you on that, so that we're doing the right things and we're not wasting a lot of time.

And you can look over it and see what we can do with some of our special equipment that's borne out of the nuclear weapon program, such as the new kind of seismic readouts that are unusual, front edge of technology, are those kinds of things helpful to you.

You tell us what you need and we'll help solve the problems that you have there. That's the whole idea of the NTI, is to open 700 national laboratories for your people, including entrepreneurs. This is not just the big companies. This is little companies, as well.

We have 25 percent of the credo so far as small business. So we want you to come in and play in the game. We don't know what we have there that you can use to solve some of these problems, that we will probably not solve politically.

So the questions today, I'm sorry to say on the broad scale -- I could tell Jim, again, rattle off a bunch of things we're doing. But the net result of all this, like education, we say look at the wonderful people out there, the wonderful things we're doing in education reform, and the answer is we're still going down the tubes and we're still only above Slovenia in the world in our kids' understanding of math and science.

That's tragic for industrialized nations. And the fact that somebody says we're as good as we were in 1971 is irrelevant. We have to be relative to the world, which is demanding much more of us; information flow and understanding and comprehension, the ozone layer depletion, the global climate change and toxic waste disposal and things that we don't like to talk about at the breakfast table.

But those are the things that are driving these costs and these prohibitive regulations against you up. So we're going to have to start dealing with things that we haven't dealt with before in the public view, and they're going to have to start understanding this, that they cannot separate themselves from those issues if they're going to be interested in a standard of living of what we have to day. And we know it's going down in some areas and it's sad and we shouldn't let it go down there, and we're at the heart of it.

Your industry is at the heart of it. One out of seven of the cars in the world or cars in this nation, one out of seven jobs in this nation come out of the cars we build. So they and you together are the powerful motor that drives the country.

Why it's being defeated by these others on spurious ground and specious rationale, I don't know. But they can hype a society that is somewhat illiterate in these areas and that's what we're driving at at the same time, and that's why you see education in the energy strategy as a primary issue.

Well, we've now made it and the President will be making this a mission for all Federal agencies that have technical requirements. And that means that's about 17 of us, 17 agencies. We have to get heavily involved and you have to get involved with us on getting the education level of the public -- I'm not talking about engineers and scientists, I'm talking about the knowledge in the American people of the world around them and what makes it tick.

So they can't be undone by extremists, and that's what we've got running around now, too much in charge and we're trying to bring balance back.

So those are the answers. They cover almost every question you're going to ask, because I can't do better than what we're doing right now. We're fighting hard on this thing and I find that with the new leadership that we have, the working groups that we

have in the White House today, I wish we had been doing this three years ago, we would have been further along. I guarantee you that.

So I think we've had other ideologues that look narrowly at economy or other things that haven't given us as much time of day as they're now giving. And I think people are beginning to see with this energy bill debate, we're beginning to see energy come up again, at least at the top levels in government, and I mean on the Hill, as well, that's important to us.

With those two powerful votes out of Energy, we can't let that go down the tubes with nonsense by others who don't have the national interest at heart.

MR. HUNT: Thank you, Admiral and Leighton. The next topic deals with natural gas research and development and market development, Joe Hydok. Joe?

MR. HYDOK: Mr. Secretary, we had likewise a number of questions and comments from the members relative to research and development, and I really have to commend you and your staff because you've taken the wind out of our sails. The press release that you left at our space today really addresses almost all of the questions and comments that were raised.

I'm not sure we're going to be totally satisfied with it when we read the details of the report, but certainly you've addressed the issues that are in our minds. We think end-use application, increased spending in that area is an absolute necessity and we definitely need assistance in translating the research and development into the actual end-use application. We need support and demonstration programs in the commercialization.

There have been suggestions from the industry that we're going to have to at least double the spending over the next ten years if we're going to achieve the objectives of maximizing the use of natural gas over the long term.

The industry has been doing their part and we're looking for government to do more, and hopefully your report addresses that. But I had two questions and I'm going to give you what I think is the tougher of the two, and it really backfires.

I think right now, assuming you're able to move through with your initiatives, the biggest problem we might have in the short-term, anyway, is our own industry. We're having difficulty. The Gas Research Institute funds in the neighborhood of \$200 million a year of research. That's virtually twice the level or almost that the government is spending.

But because of FERC not really having the authority to mandate the collection of the GRI surcharge, it has been a voluntary application of the pipelines which has worked very well through the years, because once the pipeline includes that in the rates and FERC approves it, there is no challenge at the state level to the collection.

So we believe the consumer is paying the tab. However, because of competition and the discounting that's taking place on the pipeline, the pipelines, some of them feel, and I think justfully so, that they can't continue to collect because it is directly impacting their own earnings potential, subjects them to stockholder suits.

And as we've worked out new mechanisms, the LDCs are finding that their state regulatory bodies are not necessarily willing to allow them to collect because it isn't a FERC-approved rate.

Now we're moving to less regulation, but here's an instance possibly where more regulation is, in fact, needed. It's possible that if we're going to maintain that funding level at \$200 million, which we think is essential, FERC needs the authority to at least continue to process it, as has been in place in the past, and I don't think there is anyone in the pipeline or distribution industry that would oppose that.

Do you think it's practical or in the cards for something like that to happen?

ADMIRAL WATKINS: I do.

MR. HYDOK: Can we move to encourage FERC?

ADMIRAL WATKINS: I think we can. If you look back at the track record over the past ten years of the Department of Energy's, you might say, intervention in energy issues that are coming before FERC -- in other words, the policy side of it, not the regulatory side -- it's been minimal, if not zero, until recently.

And you've seen us now go in with a whole host of recommendations, particularly in the mega-NOPR, to get it straightened out. So we now have a reorganized fossil energy shop that is giving more than lip service to gas. We had a virtually no-gas shop down there, and that has been changed.

When Linda Stuntz went over, she was appalled that none of us knew how small that organization was. It's not that the people weren't good people, but we didn't have the wherewithal to really deal on a policy level that we should be dealing with.

So my feeling is we work -- I think we have a very good relationship from a policy point of view to express the views of the Administration on such important

matters, and we've been very successful at doing it. We've intervened in a number of things where we've been successful in outcomes, with emphasis on fairness.

Martin is a good friend of mine and we work very closely on a lot of these issues where we have to set new policies. We have to be the ones to change the law. They try to regulate as best they can within a complex web of confusing interacting policies. We're trying to, in the energy strategy, eliminate a lot of that so we can clean up that morass and allow us then to deal with something that we can get a handle on.

Right now there are so many variables interfering with that process, we have to get some of those variables out there, so then we can start dealing. And the answer is I think we can.

If you look in this document we handed out, this draft copy of our strategic plan for natural gas, you'll see its goals in there and the goals are pretty good. Remove regulatory barriers, Federal and state, to efficient gas market operation.

I believe that we can do a lot of job owning along with you on states that are clearly interfering with production and consumption issues out there in a way that is unfair. I think we have a role to play by carrying out an energy strategy of the President to get in the act.

I was just accused the other day of getting in the act up in an integrated resource planning session up in Massachusetts. How dare I send up somebody to be a witness. What do you mean? That says externalities are, at this point, a sham. We can't cost out externalities on CO₂.

What is your intention? Is your intention to shut something down, start it up, what are you talking about? So we've got to get into all these at the state level, as well. If we believe that there is unfair practices out there to interfere with the National Energy Strategy, then we're going to take it on.

That's another reason why we need legislation and we need this whole package put together; emphasize utilization technology. We talked about that, R&D. Focus resource R&D on reducing production costs and addressing near and mid-term needs of the industry. Create more efficient distribution and storage systems, initiate R&D on ultra-low NO_x turbines for higher efficiencies, this will affect you, conclude R&D on phosphoric acid fuels and so forth, more emphasis on natural gas vehicle technology, and coordinate our own programs in R&D.

We don't have just 40 million going into natural gas R&D. We have 108 million. Well, we have to understand that in the Department, that requires organizational

change and we've set it up so that we're now working together and our budgets are submitted so that we know what each other is doing in those areas; some basics, some supply research, some is in partnership with the private sector, and then a cost-share program with GRI and industry.

We know the issues you're facing there and we've got to get more involved to make sure that we don't lose that research base. But we also can't do it alone. So we need to have that sharing going on and I think we can do a better job in making sure that we don't diminish that, because people don't want to participate anymore because of the situation that we have out there in the gas industry where they indicate some feeling that they have to back out of their support.

We don't want that to happen and we're going to try to do everything we can to bolster that back up again. So I think you'll find that this document is our first crack after a lot of work, two years of work, and talking with you all. We don't do these blindly. We don't wait for just these meetings. We're talking to you all the time and getting inputs, and we're hearing from you, which is good.

We want to continue that, because we do listen, and we hope that this will trigger off the kinds of things we need to do. You need to tell us just what you just told us, to work that problem with FERC, and I think the answer is yes, we can. But we can't do it in the absence of some fundamental blueprint for energy, in my opinion.

It will not be listened to, because too many people can defeat you. But once you have a blueprint in-hand that's been blessed by a bipartisan Congress and supported by the President, now we can really move, I think, within that strategy, and that's our intention.

MR. HUNT: Thank you, Admiral and Joe. The next area is environmental balance, Dick Stegemeier. Dick?

MR. STEGEMEIER: Mr. Secretary, members of the NPC are applauding President Bush for his two recent actions regarding energy and the environment, especially the 90-day moratorium on new regulations and the cash-for-clunkers or other market-based systems for environmental cleanup.

But the NPC members are deeply concerned that rapidly increasing environmental costs are yielding only marginal and usually not even measurable environmental benefits.

In Los Angeles, we have the reputation of having the nation's dirtiest air, but for the last 20 years, we've had not even one Stage 3 smog alert. We've had not even one

Stage 2 smog alert for the last six years, and last year we had only a few Stage 1 smog alerts.

So I think we can say that the environmental controls in place today are already doing the job, usually nationwide. Now, as the National Energy Strategy weaves its way through Congress, it's apparent to many of us that it's mostly another environmental bill and not a real energy strategy for the 1990s.

It's a strategy for the year 2010 and beyond, but depends increasingly on imports of foreign oil for the next 20 years, and, to a large extent, on dreams for alternative fuels, of which CNG, compressed natural gas, is the only one that really makes good sense.

Most of the rest, we believe, will have their own unique social, economic and environmental costs. It seems to me and to this group that the Administration needs to ask at least six very important questions in this energy environmental debate.

Will these changes that are being talked about provide undeniable benefits with all the costs incurred? Will it be cleaner? Will it be cheaper? Will it be safer? Will it preserve American jobs? And will it enhance our national security?

I guess the summary of all this is how can we get these questions into the minds of the American people.

ADMIRAL WATKINS: Well, our intent is to answer all those questions as a yes. Will we be able to achieve that? I don't know. Your crystal ball is as good as mine. Let me say, first, as I said before, the bill is not the strategy. We have plenty of authority within the Federal government to put dollars against certain accounts.

We have authority within the Federal government to propose tax change legislation. We have a lot of authority we can use. The question is can you do those things that you would want to do when you have an antagonistic Congress right now. We do not have this hand of friendship extended as we'd like to have it. This is what the President has wanted to have and it hasn't worked out that well.

It's gotten extremely partisan. So the bill is not the strategy. When people say it is, it's doing a disservice to the strategy. The strategy is much broader than the bill. That doesn't make the bill unimportant. The bill is powerful because those areas that it sits on probably weight so heavily that, let's say, 70 percent of the worth of the energy strategy is locked up in the bill, even though it's only ten items, ten percent of the items in there to take action on.

But they're all integrated together. So the power is in the entire strategy, not in the bill. They have to go together, and I understand that. CNG is not the only vehicle alternative fuel that makes sense. I think we've got to be careful about that.

If we decide that we want a variety of alternative fuel vehicles by the turn of the century and set up the mechanism so that market draw in that direction is going to happen, as we're doing in the energy strategy, I believe it's going to happen. The auto industry tells us it will.

If we say that we want fleets over a certain size in the country that have to have alternative fuel capability by the year 2000, it's going to drive the auto industry into delivering that stuff.

We believe that the hybrid vehicle, for example, which is a constant-speed turbine, driving electric motors, is a very viable concept and we're working with the industry on that right now. It's very, very good for any kind of fuel you want to put in that tank. The constant speed helps a great deal in cutting down the air pollutants by a significant amount.

And as we go into higher temperature engines and that kind of thing, which is also in the research base and I talked about that in the natural gas plan here, that's just one element, we believe we can get serious about alternative fuel vehicles.

Now, I can't tell you about reformulated gasoline. You know more about that than I do, and the other alternatives in there, the ETBs and MTBs and fixes and the subsidies for those and so forth. What we're trying to say is let's have a diversified system and let's have a delivery system out there that can match regional and local needs, because what's good in one area may not be acceptable in another and keep them all rolling.

But I would say that if I had to predict, I'd say CNG and some kind of electric vehicle, whether it's hybrid or the direct drive, with the new battery under the consortium that we're building with the \$260 million consortium, I think it's a very viable concept and certainly California thinks it is, and they're right in the middle of it with us.

So we have utilities and others who have contributed to this consortium and we think that it's clearly an alternative. So, again, I would say that our goal is your goal. Cleaner, cheaper, safer, undeniable benefits coming out of this is certainly our goal.

Whether we will achieve it, I don't know. It's problematic right now and this is the whole pitch I tried to give you. So I believe we do have the embryo here of a new

way of doing business in energy. It will either die, and I believe this year is a critical year and that's why I say it's important for the NPC meeting to be held right now. We're at a very critical juncture.

I don't think it's going to come back to life if we fail this year after the full court press we've put on it, until we reach a situation in the country that is so desperate that people are going to say where is the energy strategy.

I would hope that two lessons learned are sufficient, but apparently, to some members of Congress, it's not. So you're going to have to stay on that level with me for a while until we can get something in-hand, and then we can hopefully fine tune it as we go into Fiscal 1994 budget preparation, and the second edition of the energy strategy to demand more legislative support where it's needed, tax reform where it's possibly needed.

And hopefully by that time we don't have such heavy rules on us that we can't move under constraints that when we open one side of the box, all of the termites fly out. So it's hard to work inside the Beltway, even though we understand your logic and our logic match. But to get there from here with a situation that pertains is very difficult.

MR. HUNT: Thank you, Admiral and Dick. The last topic deals with education and communication, Bobby Parker. Bobby?

MR. PARKER: Admiral, you relax. We're going to get off your back now. We're going to ask you for advice to us. You may want to change the format back to like it used to be after today's session.

ADMIRAL WATKINS: I like the old format. I could have ran out.

MR. PARKER: The series of questions that were given to me were education and communication, much of which you have answered. I'm going to try to pick up some questions that have not been touched on, but relate to the same subject.

We recognize the perception of Congress and their constituents, as well. That's the tough part, the people that say -- what are we here for, there's no problem; we have plenty of energy and it's cheap.

So the real problem seems to be with us, not with them. In fact, many believe this industry really isn't that vital at all. There are many, many across the country that do not feel as we feel that this is important to the future of our country to keep us healthy and in business.

Thirdly, in order to accommodate our desires, they need to sacrifice the environment just to make us happy. Those perceptions, pretty widespread, are hard to combat.

So I guess the question you've already tried to answer and we have, too, is how can we do a better job for you, and we're a little bit disappointed on how the Administration can do a better job. We're not talking about you. We're talking about high up. We think there are opportunities to have voiced these concerns stronger.

We understand campaigns and elections, but we feel that somehow this could have been done better. Another subject is how can DOE become a player. We find you've been tarred and feathered with us. Nobody really listens to you in Congress very much, and not too much in the Administration, and we admire the way you've repeated your message and stood up there and got shot down. So we want you to know that.

Have you got any advice to us how we can make your role, the Department of Energy role more listened to? We need that. And, finally, unlike any other government in the world, we find ourselves in an adversarial position with our own government.

In fact, our government seems vindictive towards the success and progress of our companies here. We don't know what we're doing wrong, but we're sure not doing it right. If you've got any advice, we need to know.

ADMIRAL WATKINS: Well, I think just a simple answer to one portion of your statement, Bob, which I, again, am in harmony with you on this thing, is I think that within the Administration, we are now doing better. It's late and I recognize it's late and I wish we had had this same kind of a team earlier, much more sensitive to the energy side. But, after all, this Department, when I took it over, I didn't find any linkage between the Secretary of Energy and the field activities.

It was basically run by Congressional fiefdoms of various types who had what chairmanship. One committee ran the defense programs, another committee ran fossil energy, mostly with coal emphasis. Another committee ran something else. They believed they owned all our national laboratories.

So when I got to the helm, I found out that there's no hydraulic line to a rudder, but I was given great orders. It's just nobody knew how to carry anything out and nobody followed anything.

So we had to start from scratch, and I'm talking about starting from scratch. There's no energy policy. Sure, they file one every other year and send it up to the Hill.

Nobody read it and it gathered dust. The Defense Department was almost going to be shut down. The FBI dropped in with paratroops on Rocky Flats and about shut the whole thing down.

We were losing Court cases on environmental issues. The whole thing was a nightmare. So when you have that kind of credibility or lack of credibility, nobody listened to the Department of Energy during the early stages, even though President Bush hired me to clean up a mess. He said, "Jim, can you help me clean up this mess." Those were the words he used.

The answer is I don't know if I can. I'll try, because I like you and you've asked me to do it personally. But I don't know if I can do it or not. It is a real mess. I mean, it's not just in one area. It's across the board.

So we're trying to build our own credibility by completely -- we've gone through a complete reorganization of the Department, bringing in competent leadership. We have good people in there, but they haven't had the leadership they need.

So we're getting there. In the meantime, we have a war, Middle East war that certainly surrounds this industry. We have the building of a National Energy Strategy for the first time that has a long look at energy, which we never do in this town. We can all look out six months, maybe a year in this town, because even a year is long-range vision on Capitol Hill, because then you start the next election cycle. So you're already in it. So it's not two years, it's one year, and that's the maximum vision.

So we're trying to look out 40 years, then say mid-term is around 2010 and near-term is now, and what can we do to get this thing going. Well, people don't think in long-term visions. Also, there is no organization in the House of Representatives that can handle a comprehensive bill without referring it to 23 committees, in our case.

In this case, I'm talking about major committees that are looking at this thing, not the subcommittees. They can go on ad infinitum. So there isn't any mechanism to do a thing like this.

So I would have to say that our own credibility in DOE has given rise to the same kind of thing that you might have found out in an oil spill or something like that, where you're victimized, the entire industry is victimized by an organization or an event. We have to pull away from that and I think we are pulling away, but, unfortunately, the Pearl Harbor you need is something we don't want, which is a deep recession or people beginning to understand what we've been trying to tell them too late.

And then to find ourselves to pull out from that is much more difficult than to pull out from the situation that we have today. But sometimes it takes that kind of event. So it is true that we can buy the gasoline at \$1.05 or whatever a gallon out here still, so it's not a problem for the American people, but that isn't good enough in the education process.

We've got to look ahead. We've got to look ahead to events in energy security. We've got to look ahead to the future economy and its growth. We can't just keep doing things on this year's photograph, which is what we've been doing; looking one year ahead, six months ahead, solve my election problem. Yes, Mr. President, I can support you generally, but then if I do that, I won't get elected, so I have to vote the other way, from a Republican.

So when we have that kind of attitude, the stoicism is lost, we don't have any heroes there. They're wandering with the minstrels out there on either side. I don't see how we get there. This is tough stuff we're talking about having to do and a lot of people don't want to do it in an election year, which is basically every year.

So it's a process that right now is in urgent need of change, in my opinion. We've heard about it, but we have to get serious about it. How do we run the government on something like the situation we find today in the energy business, unless we can come together and say let's try to solve this one. This is important to the nation, to all of us.

So it's all in that. Certainly in my speeches and everything I'm doing, and in my discussions with the Administration, with the White House now, with Henson Moore over there who understands it, with Sam Skinner who understands it, because we work very closely with him in transportation, on the transportation bill and the CAFE issue, with Clayton Yeutter who is a superb individual on domestic policy issues. He's been Secretary of Agriculture. He owns a farm, runs a farm. He's a good man. Trade representative on all issues, very sensible approach being taken now in the Interagency Coordinating Group on Global Change, as we face the conference here in Rio coming up.

These are important to this industry and it's doing well now, but we're all late. DOE is late. We've been late in the Administration in putting this on front burner and giving it a broader look than just some narrow negatives on tax reform, and we're getting there.

But basically we're kind of in the starting block, just moving out. That's the best I can do, Bob.

MR. HUNT: Thank you, Admiral. We now will move into our open Q&A session. I regret that we're not going to have as much time as we thought, but I think everyone would agree that the dialogue over the last hour or so has been very informative. Mr. Secretary, we really appreciate the candor of some of your comments.

I'd like to throw out a couple of ground rules here. In the short time we have, we would like to allow as many members as possible to pose questions. Therefore, please make your questions as precise as possible.

Secondly, while some commentary prior to a question is not inappropriate if it's brief, speeches are inappropriate. Third, please try not to be repetitive if a subject has already been fully discussed in the dialogue that you've heard.

The Admiral will come to the podium and we'll recognize those who wish to present speeches and I will indicate when it's time to take the last question. Please identify your name and your company affiliation.

QUESTION FROM MR. PALMER: Bob Palmer. I'd like to speak on this idea of how the public changes -- to follow on to Leighton Steward's idea of how the government is in many ways supporting groups that are not bound by fact or science specifically -- at this very moment, over at the Museum of Natural History, there's a display about half the size of this room from the Exxon Valdez spill. The spill's most blatant propaganda, as you can imagine, people walk the room looking at a dead sea otter and a dead bird covered in oil.

Why is the government protecting this kind of propaganda?

ADMIRAL WATKINS: I don't know.

[Laughter.]

ADMIRAL WATKINS: But I'm going to find out. It's not my normal bag to get into something like that, but I couldn't agree more. I think that's a very unfortunate thing for -- certainly, if it's -- I have to assume it's government funds that are supporting such a display.

So at any rate, I don't know. I don't like it, either, and I don't get a chance to get over there very much to see the birds. But I will just take a look at this as a matter of policy because I think it is an important issue and I certainly will be willing to bring it up in our discussions over in the White House on this.

As far as I know, the Department of Energy did not do it.

[Laughter.]

ADMIRAL WATKINS: But I wouldn't even trust myself on that one. Did you do it? Where are you? No, he didn't do it, either.

QUESTION FROM MR. WOODS: Dalton Woods. Mr. Secretary, the IPAA and the American Association of Petroleum Geologists and other independent-oriented organizations believe that there are substantial reserves of oil yet to be found in the lower 48 states.

We notice that people who we consider our friends in this Administration do not include any incentive for exploration in the lower 48. I'm talking about ANWR, enhanced recovery, and alternative fuels.

We feel that if you don't sincerely believe there are any more good reserves of oil in the lower 48 that are left to be found, you're not likely to provide incentives to hunt for something that isn't there.

My question is can we, the independents, get together with you, our friends in the Administration, so that we can present our view and show you there are, in our opinion, some things left to be found?

ADMIRAL WATKINS: We agree with your statement. We agree there are reserves. If we're not addressing that adequately, this is an idea topic for us to get together. So I invite you to do exactly as you said. Let's meet. I'll just talk to Jim about it, because we're on your wavelength on that, and see what we can do to jack up the visibility in that area that we give to it, because certainly we agree with you.

If we haven't said it right either in the energy strategy or whatever, we need to straighten it out. We certainly didn't try to deny that. If, by omission, we've created a problem with you, we've got to solve it, because it's not our intent and maybe we aren't putting the emphasis on that that we should.

I didn't know it. I didn't know that we were in any kind of disagreement with you on that. So I invite you to get with us and we'll pick it up as an agenda item and try to do something about it.

QUESTION FROM MR. YERGIN: Daniel Yergin, Cambridge Energy. Admiral Watkins, you mentioned that energy is becoming more important both in the Administration and the Congress, but obviously the Congress doesn't respond to what happens with public opinion. Do you think that energy issues will actually be significant in the upcoming campaign?

ADMIRAL WATKINS: No. I'm sorry, but it won't be. The polls all say that energy is not on the table in the list of priorities. Environment is way up here and energy has been lost. It used to be there during the war, it was fairly high, and then we have a half-life in our memory of about two months. So eight half-lives is 16 months. So it's gone.

We have to make it an issue. That's what I'm challenging all of us to do. We have to make it an issue. We've tried to make it an issue. I mean, my God, I don't know what more we could do to try to make it an issue.

But it's gotten such bad-mouthed from the very beginning. Even before the strategy came out, it was bad-mouthed even from within the Administration because some people in the Administration didn't understand the power of an integrated National Energy Strategy.

Now everybody does, and that's important. But that's part of the cultural change that has to take place. It hasn't taken place in society. You have to help make it take place, along with all of the other elements of the energy industry.

It isn't just you all. It's all of us. This is why I'm encouraging the trade associations to come together, come together with their principals and say as a body, we represent a lot of the national economy and the positive outlook for the country. Let's pull together our resources and go after the broad picture, as well as the narrow, what I would call the vertical standpipes that stack up like this and may or may not integrate in a system that supports the total energy needs of the nation. That's all I can say.

QUESTION FROM MR. VETTER: Mr. Secretary, I'm Ed Vetter from Dallas. As you know, there's an enormous discovered reserve base in the United States, in the lower 48, that's considered uneconomic, and I think you alluded to the ability of extracting all the oil that we know is there.

I don't think it takes much more new technology and there is a lot of technology at hand. What it takes is some kind of a stable price mechanism. You can't run an economic analysis. In the past two years, the price of oil has ranged from \$14.50 to \$40 and it's now about \$19 and change.

So my question to you is really a variation of the oil import fee. I agree an oil import fee would be regressive, but it strikes me that a floor price -- which, in my opinion, would never be triggered because OPEC would be crazy to sell oil at a lower price when they could get the floor price -- at least would take the sting out of running economic analyses for outside financing at \$12 and \$10 a barrel, which kills every project.

So I ask you what are the chances of a floor price that is somewhat lower than \$19 and change?

ADMIRAL WATKINS: I think that if you could just go after this issue and say put a floor price on there, there is some receptivity. We've studied that. We studied it in the development of the National Energy Strategy. If you picked a floor price, let's say, like \$20 and escalated it some figure that would have to be readjusted or something over time, it would probably be a palatable thing.

Can you get it alone? No way. So what you're doing there is commendable in itself perhaps, but to try to limit it to that for this purpose will open up so many other issues that would be very distasteful to a Republican Administration that would never put up with it.

The trouble is you can't solve a problem like that in this town, inside this Beltway. It's somewhat of an un-American place. It's an unusual place, not where the real people are. Real people are out there outside the Beltway.

So we're in here struggling with how do you accomplish that objective, how do you really do it. Just witness what's happening up there right now on a bill that's so heavily passed by the people who really know what they're talking about in energy, 42-1 and 94-4. I mean, that, to me, is a tremendous sign and now it's trying to be undone.

So you can't do what you're saying to do. I'm not a tax expert. I'm not in the business of dealing with those committees on the Hill, and I'm wandering in to Nick Brady's area and to OMB's area here, so I have to be very cautious because I'm not smart enough to do that.

But I do know that once you open one of these issues, you can't control the process. So it's, Nelly, bar the door. So you have to stay to a very simple principle, that we have to solve it probably by other means.

Now, were there to be bipartisan support, national support somehow for a floor, and that was the narrow fix and it didn't have a lot of bells and whistles and trinkets that were objectionable, it probably would be acceptable.

This is not one that we are hard over on. We just don't know how to deal with it and what it really means. If you pick \$20, and right now it's \$20.62 yesterday, I think it was, it may never mean anything. So you could probably pick it and OPEC would get pretty smart about it.

How would that help you? It might help you if you knew it wasn't going to back down. The question is how do you do this, how do you carry this out without having the mischief.

MR. HUNT: Last question.

QUESTION FROM MR. ANGELO: Mr. Secretary, I'm Ernest Angelo. I'm an independent. First, I want to say that your efforts are a breath of fresh air in the industry. It seems to me that if we're going to overcome this problem that we have in the perception and the efforts of the divided industry or whatever, that we're going to have to have leadership from the top. That, to me, means that the President has got to raise the status of this problem.

If we're serious about it being a national problem, we're going to have to have the President speaking out on it, saying some of the things that you've said today, making a national address, if necessary.

Otherwise, you're not going to find the industry or the people who know what the problems are rallying around the issues. We need the President and a coordinated and consistent approach, not supporting the Clean Air Act changes and not doing things -- waffling on the real issues, not sending a mixed message -- we need a consistent strong leadership from the President, and I wonder if that's possible.

ADMIRAL WATKINS: Well, a lot of that is our problem, I think, underneath. The President has a lot of things to look at, and we, the advisors, have to present him with these issues in a very clear way. I think we're doing that now.

I think the very fact that he opened the door on alternative minimum tax, you can't imagine what a leap forward that is from my point of view. It may be small. It may not be the only thing in the world, but it's a very major step forward for the President to step out on that one tax issue.

I'm just saying that it's starting now. I believe you're seeing the President say more now. One of the reasons he's saying more is Henson Moore is there and he understands the situation. He's been out on the circuit working with you all, and that advice is getting in to the President.

There are many in this room that are very close friends of the President. They are working -- they are talking to the President about the situation. So he's getting the information. It's up to us to tell him what to do. Don't give him the problem. Tell me what you want me to do. And he's helped out in a couple of areas. And I think as this thing goes, he said I want a National Energy Strategy, of the State of the Union.

To get that one-liner in there, I wouldn't be able to do two years ago, and that one-liner got in there. Well, I didn't know it was going to be in there. But I know a person who knew it was going to be in there, and he got it in there. And that's important to us. That sells the committees on the Hill that he's serious about it, and he is serious about it.

So he understands the problem. I think it's picking up momentum now and I think you're going to see more. And we will certainly keep him advised and he will get a note from me on this meeting here and how important it is. So I keep the feet to the fire over there with the staff people, and now it's much more receptive to this issue than ever before.

So I think you will see it start picking up more and more. The President is very, very sensitive to the sensitive issues that came in here today, and it's up to us to tell him what to do about it. And we think the first step is to get this bill, and then we'll ride hard on all the adjustments that we think are necessary to bring it to fruition.

Thanks very much for allowing this dialogue this morning. I applaud what you're doing here in the NPC and we'll be working with you in the very near future.

[Applause.]

MR. HUNT: Thank you, Admiral, for spending the entire morning with us and especially for agreeing to this format which provided for candid and open dialogue.

The Admiral has left the room. I'd like to say a couple of things with him being gone. We have had, as those of you who have been members of this organization know in the past, we have had Secretaries of Energy who sometimes wouldn't even come to the meetings. They would say they would come and then they'd call over the day before the meeting and say something came up and they'd send their deputy or somebody else, or, if they came, they would come, deliver a canned speech.

They'd arrive at 9:10. They'd deliver a canned speech, three questions and they're out the door at 9:30. This man did not have to do what he did today. And we can argue at times as to, well, was that answer exactly what I wanted or was it as precise as I wanted or whatever else.

He deserves our support and he's not coming from an oil and gas background, and I think he is very sincere when he says he wants to know what you all are really thinking, what we are thinking. He is sincere in terms of the NPC being an advisory committee or advisory organization to him.

Part of that burden is on us to make sure we transmit our ideas and I honestly believe that he and his staff are receptive. He may not always agree. They may have a different judgment as to what is practical from a political point of view, but the openness is there and we're shooting ourselves in the foot if we don't take advantage of it in a proper and appropriate manner. I feel quite good that he agreed to the session this morning.

Now, we do have several very important administrative matters. The first is a report from the Ad Hoc Committee on Structure and Procedures. A copy of this report, dated February 11, was sent to each of you some time ago and it's also in the packet in front of you.

As noted in the report, the Ad Hoc Committee consisted of a group of eleven members of the Council who were charged with reviewing the activities and methods of operation of the NPC, and that charge came from the Admiral.

The Ad Hoc Committee agreed with the Secretary in reaffirming the value of the Council's long-term studies, such as those which were discussed at the beginning of our program this morning, and it was further concluded that the Secretary's need for rapid response mechanisms, which really is what started the ball rolling on this report, could be achieved largely within the Council's current structure.

These issues are addressed within the report, and I won't try to repeat them here since everyone has had a chance to read them and, I'm sure, evaluate them.

Therefore, is there a motion from the floor that the Council adopt the report of the NPC's Ad Hoc Committee on Structure and Procedures and implement its recommendations? There's a motion. Is there a second? Second.

Any discussion?

[No response.]

MR. HUNT: All in favor signify by saying aye.

[Chorus of ayes.]

MR. HUNT: Opposed.

[No response.]

MR. HUNT: The motion carries. Next we have the report of the Finance Committee. I'd like to call on John Hall, the Chairman of the Finance Committee.

MR. HALL: I thought everybody would be gone by now.

[Laughter.]

MR. HALL: The Finance Committee met yesterday to review the financial status of the Council. We reviewed a draft of the calendar year 1991 audit report, with representatives of our outside auditor, Ernst & Young. I'm pleased to report that our accounting procedures and controls received high marks.

You may recall that at our meeting last June, we approved a calendar year 1992 budget of \$3.6 million to complete the natural gas and refining studies. Now, our annual income based on our formula right now is between \$2.5 and \$2.7 million.

So we had to go into our contingency to achieve that. As you heard this morning from Ken Derr and Frank Richardson, a great amount of time and effort has been expended on these important projects. However, as the study committees got into the work, further defined their scope and timetable, they concluded that in order to adequately respond to the Secretary's request, it would be necessary to conduct more data collection, computer modeling and analysis than originally planned.

After careful review, the Finance Committee agreed that in view of the significant work already undertaken, the Committee's proposals were proper and advisable. We determined that a revised budget in the amount of \$4.5 million, \$4,540,000, would provide the needed funds in order to complete these studies in the proper way.

Even with depleting our contingency fund, we face running out of operating funds before the end of the year if we do not directly fund this increase. Therefore, the Finance Committee proposes a one-time supplemental contribution request of 30 percent, which would raise approximately \$800,000 to cover the increased study work.

While we don't like to recommend a special assessment, and, in fact, we haven't had one in the NPC for 20 years, we feel strongly that it would be a mistake to dilute the value of these two reports by not providing adequate funding.

Even with this supplemental request, our finances will be tight and finishing the year in the black will depend upon your complete support.

Accordingly, Mr. Chairman, we recommend that the Council approve a calendar year 1992 budget in the amount of \$4,540,000 and a one-time supplemental 30 percent assessment to be due July 1, 1992. We also recommend that we reappoint Ernst & Young as our independent outside auditors for calendar year 1992.

Thank you, Mr. Chairman. That completes our report and I move the acceptance.

MR. HUNT: Thank you, John. The motion has been made. Is there a second? Second. I'd like to make one comment before I ask if there are any other questions and we vote.

Nobody, especially in this environment, likes to go out and ask for increments above what was already budgeted for a year. These two studies, natural gas and refining, are going to cost \$800,000 more than was originally in the budget.

The reason is because the people on those committees who come from our companies, as they got into these studies, said there are more things that we really need to understand that really weren't well understood before this study started, and it's going to require an additional computer run here or an additional something else there.

These increases were not imposed by DOE or even requested by DOE. They were not imposed by outsiders. They were requested and they are being, if you will, imposed by our own people in order to ensure that the quality of the work product at this critical time in the industry's history is what it should be. End of comment.

The motion has been made and seconded. Any questions? Any other questions or comments?

[No response.]

MR. HUNT: All in favor signify by saying aye.

[Chorus of ayes.]

MR. HUNT: Opposed?

[No response.]

MR. HUNT: The motion carries. Next we have the report of the Nominating Committee, Collis Chandler, Chairman.

MR. CHANDLER: Thank you, Mr. Chairman. On behalf of the Nominating Committee of the National Petroleum Council, I am pleased to offer the following nominations for officers, for Chairman, members of the Agenda and Appointment Committees, and the five at-large members of the Chairmen's Coordinating Committee.

For NPC Chairman, Ray L. Hunt. For NPC Vice Chairman, Kenneth Derr. For the Agenda Committee, the nominations are as follows: Gene Ames, Vic Beghini, Joe Foster, Jim Glanville, Joe Hydok, Ken Lay, John Miller, Larry Rawl, Frank Richardson, Pete Silas, with Frank McPherson serving as Chairman.

For the Appointment Committee, the nominations are as follows: John Croom, Tom Cruikshank, Bob Hauptfuhrer, A. V. Jones, Jim Kinnear, Dino Nicandros, Bobby Parker, Dick Stegemeier, Joe Williams, Irene Wischer, and Larry Fuller serving as Chairman.

In addition, the following nominations are made for the newly-formed Chairmen's Coordinating Committee: Dick Farman, Fred Hamilton, Leighton Steward, Jack Murphy, and Bobby Parker.

Mr. Chairman, I move that the Council elect the foregoing for 1992.

MR. HUNT: Thank you, Collis. The motion has been made. Is there a second? Second. Is there any discussion?

[No response.]

MR. HUNT: All in favor signify by saying aye.

[Chorus of ayes.]

MR. HUNT: Opposed?

[No response.]

MR. HUNT: The motion carries. Democracy once again triumphs.

In the category of other business, I would like to recognize seven new members of the NPC who are with us today, if they haven't just left, and ask them to stand so we can give them a round of applause.

The first is James A. Gibbs, Five States Energy Company. Would you stand and remain standing, please? John P. Harbin, Lone Star Technologies. Jack was commenting, I think, this is the third different time that he's been appointed to the NPC in different capacities.

William I. Lee, Triton Energy. Bill? He was here earlier. Corbin J. Robertson, Quintana Minerals; G. Henry Schuler, Center for Strategic International Studies; O.S. Wyatt, Oscar; Daniel H. Yergin, Cambridge Energy Research Associates. And for

anybody who has been on a desert island for the last three or four days, I will let you know that Daniel was named winner of the Pulitzer Prize for the book which he wrote, "The Prize." He received that award two days ago.

Let's give these new members a round of applause.

[Applause.]

MR. HUNT: Ladies and gentlemen, this brings us to the end of our formal agenda for this morning. Does any Council member have any other matter to raise at this time?

MR. PARKER: Yes. I think the group ought to know that Ray put a lot of effort into making this thing happen today and I think he's done a great job.

[Applause.]

MR. HUNT: Thank you, Bobby, but there are a whole lot of people who input to this. Let me make one very, very serious request. While this is still fresh on your mind, we came into this knowing that we were doing a lot of things different and new and we anticipated that some things would work exactly like we thought and we anticipated that others would bear no resemblance to what we thought.

I would really solicit and appreciate your constructive feedback as to the things that you liked, the things that you thought could be improved upon, and things you didn't like about this program, because the objective needs to be -- it's really twofold.

First, that when you all go back home, whether in a car or a plane, and you say to yourself, I am really pleased I took the time and went to the hassle of coming to this meeting in Washington. Secondly, that the Secretary and the senior staff of DOE, when they go back to their offices, they say to themselves, that was time really well spent.

Those are the two objectives. We've got to have feedback to know whether we're doing what you all want to do, and I appreciate very much the involvement of so many of you as we came up with this structure, and the next meeting, I'm sure, will be different from this in some ways as we continue to try to improve it.

Does any non-Council member have any matter to raise at this time?

[No response.]

MR. HUNT: There being no further business, I would like to adjourn the meeting. Do I have a motion for adjournment? Second. All in favor?

[Chorus of ayes.]

MR. HUNT: Please signify by standing up. The 99th meeting is adjourned.

[Whereupon, at 11:47 a.m., the Council meeting was concluded.]